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(Incorporated in Bermuda with limited liability)

(Stock Code: 993)

**(1) VERY SUBSTANTIAL ACQUISITION AND
NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO
THE PROPOSAL FOR THE PRIVATIZATION OF
HUARONG INVESTMENT STOCK CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW;
AND
(2) PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE
AS CONSIDERATION FOR THE CANCELLATION AND
EXTINGUISHMENT OF THE SCHEME SHARES UNDER THE SCHEME**

Financial Adviser to the Company



Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



Unless the context requires otherwise, capitalized terms used in this circular (including this cover page) take the meanings ascribed to them in the section headed "Definitions" of this circular.

A notice convening the SGM to be held at 11:30 a.m. on 27 October 2020 at Level 16, Two Pacific Place, 88 Queensway, Hong Kong or any adjournment thereof is set out on pages SGM-1 to SGM-3 to this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM or any adjournment thereof, **you are strongly urged to complete and sign the enclosed form of proxy in respect of the SGM**, in accordance with the instructions printed thereon, and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time fixed for holding of the SGM (i.e. not later than 11:30 a.m. on Sunday, 25 October 2020 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

This circular contains, among others, (i) a letter from the Board to the Shareholders, as set out on pages 8 to 31; (ii) a letter from the Independent Board Committee, containing its advice to the Independent Shareholders regarding the Proposal, as set out on pages 32 to 33; and (iii) a letter from Optima containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Proposal, as set out on pages 34 to 70. The English language text of this circular shall prevail over the Chinese language text for the purpose of interpretation.

25 September 2020

PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing coronavirus disease (COVID-19) pandemic, the Company will implement the following precautionary measures at the SGM to protect attending Shareholders, staff and stakeholders from the risk of infection including, without limitation:

- (1) compulsory body temperature checks will be conducted for every attending Shareholder or proxy or other attendee at the entrance of the venue. Any person with a body temperature of over 37.3 degree Celsius will not be admitted to the venue;
- (2) every attending Shareholder or proxy or other attendee is required to wear a surgical face mask throughout the SGM;
- (3) no refreshments will be served at the SGM; and
- (4) each attendee at the SGM may be asked whether (a) he/she has travelled outside of Hong Kong within the 14-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the venue or be required to leave the venue.

Any person who does not comply with the precautionary measures, is with a body temperature above 37.3 degree Celsius or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company reminds the Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the resolution at the SGM as an alternative to attending the SGM in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement(s) on such measures as appropriate.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement dated 6 July 2020 jointly issued by the Company and HRIV pursuant to, among others, Rule 3.5 of the Takeovers Code in relation to the Proposal
“Approvals”	authorizations, registrations, filings, rulings, consents, opinions, permissions and approvals
“associated company(ies)”	has the meaning ascribed to it under the Takeovers Code
“Authority”	government, quasi-governmental and/or governmental body, statutory or regulatory body, court, or designated authorized body or agency of any of the foregoing and “Authorities” shall be construed accordingly
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which the Stock Exchange is open for the transaction of business
“Camellia”	Camellia Pacific Investment Holding Limited, a company incorporated in the British Virgin Islands with limited liability, which held approximately 51% of the issued share capital of the Company as at the Latest Practicable Date
“CHIH”	China Huarong International Holdings Limited (中國華融國際控股有限公司), a company incorporated in Hong Kong with limited liability, which is an indirect parent company of the Company and HRIV and a subsidiary of China Huarong
“China Huarong”	China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), a joint stock limited liability company incorporated in the PRC whose issued H shares are listed on the Main Board of the Stock Exchange (stock code: 2799)
“China Huarong Group”	China Huarong and its subsidiaries

DEFINITIONS

“close associate”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands, as consolidated and revised from time to time
“Company”	Huarong International Financial Holdings Limited (華融國際金融控股有限公司), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 993)
“Concert Parties”	parties acting in concert, deemed acting in concert or presumed to be acting in concert with the Company in relation to the Proposal and the Scheme including, without limitation, China Huarong, its subsidiaries and its associated companies, Mr. Jia and companies controlled by him, and Renco and its subsidiaries (including Power Tiger)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme becoming effective, as set out in the section headed “3. Conditions of the Proposal and the Scheme” in the “Letter from the Board” of this circular
“connected person”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Court”	the Grand Court of the Cayman Islands
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Court for the purpose of voting on the Scheme (with or without modifications) or any adjournment thereof
“Director”	director of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law

DEFINITIONS

“Enlarged Group”	the Group as enlarged upon completion of the Proposal
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Group”	the Company and its subsidiaries
“Hero Link”	Hero Link Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, which held approximately 3.59% of the issued share capital of the Company as at the Latest Practicable Date
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HRIV”	Huarong Investment Stock Corporation Limited (華融投資股份有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2277)
“HRIV Board”	the board of directors of HRIV
“HRIV Disinterested Shareholders”	all of the Scheme Shareholders, excluding the Company and the Concert Parties
“HRIV Group”	HRIV and its subsidiaries
“HRIV Shareholders”	registered holders of HRIV Shares
“HRIV Shares”	ordinary shares with a par value of HK\$0.01 each in the share capital of HRIV
“Independent Board Committee”	the independent board committee of the Company established by the Company to make a recommendation to the Independent Shareholders in respect of, among others, the Proposal and the Scheme

DEFINITIONS

“Independent Financial Adviser” or “Optima”	Optima Capital Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Board, the Independent Board Committee and the Independent Shareholders in connection with the Proposal and the Scheme
“Independent Shareholders”	all Shareholders other than the Shareholders with a material interest in the Proposal and the Scheme
“Last Trading Day”	29 June 2020, being the last full trading day for the HRIV Shares and the Shares immediately prior to their respective suspension in trading on the Stock Exchange pending the publication of the Announcement
“Latest Practicable Date”	22 September 2020, being the latest practicable date for the purposes of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Long Stop Date”	31 December 2020 or such later date as the Company and HRIV may agree or, to the extent applicable, as the Executive may consent to and the Court may direct
“Mr. Jia”	Mr. Jia Tianjiang, an indirect substantial shareholder of the Company (controlling approximately 21.60% of the issued share capital of the Company through Tian Yuan Int’l and Hero Link) and HRIV (controlling approximately 19.46% of the issued share capital of HRIV through Tian Yuan Asset Management) as at the Latest Practicable Date
“Power Tiger”	Power Tiger Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which held approximately 4.63% of the issued share capital of HRIV as at the Latest Practicable Date

DEFINITIONS

“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposal”	the proposal for the privatization of HRIV by the Company by way of the Scheme
“relevant securities”	has the meaning ascribed to it under the Takeovers Code
“Renco”	Renco Holdings Group Limited 融科控股集團有限公司 (formerly known as HKBridge Financial Holdings Limited (港橋金融控股有限公司)), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2323)
“Right Select”	Right Select International Limited (佳擇國際有限公司), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of China Huarong
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law involving, among other matters, the allotment and issuance to the Company or (as the Company may direct) its wholly owned subsidiary one HRIV Share, the cancellation of all the Scheme Shares and the restoration of the issued share capital of HRIV to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HRIV Shares in the same number as the Scheme Shares (which were cancelled under the Scheme) minus one to the Company or (as the Company may direct) its wholly owned subsidiary credited as fully paid out of the credit arising in HRIV’s books of accounts as a result of the reduction in issued share capital of HRIV by cancelling and extinguishing the Scheme Shares
“Scheme Document”	the composite scheme document to be jointly issued by the Company and HRIV in relation to the Scheme, including each of the letters, statements, appendices and notices in it

DEFINITIONS

“Scheme Record Date”	such date as shall have been announced by HRIV to the HRIV Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders under the Scheme
“Scheme Shareholders”	holders of the Scheme Share(s)
“Scheme Shares”	all HRIV Shares in issue as at the Scheme Record Date including those held by the Company and the Concert Parties, but not including the one HRIV Share to be allotted and issued to the Company (or as the Company may direct, a wholly owned subsidiary of the Company) referred to in Condition (c)(i)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGM”	the special general meeting of the Company to be held at Level 16, Two Pacific Place, 88 Queensway, Hong Kong at 11:30 a.m. on 27 October 2020 for the purpose of considering and, if thought fit, approving, among other things, the Proposal and the Scheme, notice of which is set out in Appendix VII to this circular, or any adjournment thereof
“Shareholders”	registered holders of the Shares
“Shares”	ordinary shares with a par value of HK\$0.001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Tian Yuan Asset Management”	China Tian Yuan Asset Management Limited (中國天元資產管理有限公司), a company incorporated in Hong Kong with limited liability, which held approximately 19.46% of the issued share capital of HRIV as at the Latest Practicable Date
“Tian Yuan Int’l”	China Tian Yuan International Finance Limited (中國天元國際金融有限公司), a company incorporated in Hong Kong with limited liability, which held approximately 18.01% of the issued share capital of the Company as at the Latest Practicable Date
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“%”	per cent.

All references in this circular to times and dates are references to Hong Kong times and dates unless otherwise specified.

All percentages stated in this circular are approximations and certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

LETTER FROM THE BOARD



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 993)

Executive Directors:

Mr. Yang Rungui (*Chairman*)

Mr. Wang Junlai (*Chief Executive Officer*)

Non-executive Director:

Ms. Wang Qi

Independent non-executive Directors:

Mr. Hung Ka Hai Clement

Mr. Ma Lishan

Mr. Guan Huanfei

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in Hong Kong:

Unit A, 16/F & Unit A, 17/F

Two Pacific Place

88 Queensway

Hong Kong

25 September 2020

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND
NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO
THE PROPOSAL FOR THE PRIVATIZATION OF
HUARONG INVESTMENT STOCK CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW;
AND**

**(2) PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE
AS CONSIDERATION FOR THE CANCELLATION AND
EXTINGUISHMENT OF THE SCHEME SHARES UNDER THE SCHEME**

1. INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Scheme and the Proposal. As set out in the Announcement, on 3 July 2020, the Board requested the HRIV Board to put forward the Proposal to the Scheme Shareholders regarding the privatization of HRIV by the Company by way of a scheme of arrangement under section 86 of the Companies Law.

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Subject to the Scheme becoming effective:

- (i) one HRIV Share will be allotted and issued to the Company (or, as the Company may direct, a wholly owned subsidiary of the Company) for cash at par;
- (ii) subject to and forthwith upon the allotment and issuance of the HRIV Share referred to in (i) above, the issued share capital of HRIV will be reduced by the cancellation of the Scheme Shares on the Effective Date, and in consideration therefor, 2.82 Shares will be allotted and issued to the Scheme Shareholders for each Scheme Share so cancelled;
- (iii) forthwith upon the issued share capital reduction referred to in (ii) above, the issued share capital of HRIV will be restored to the amount immediately before the cancellation of the Scheme Shares by means of the issuance of new HRIV Shares in the same number as the Scheme Shares (which were cancelled) minus one to the Company (or, as the Company may direct, a wholly owned subsidiary of the Company) credited as fully paid out of the credit arising in HRIV's books of account as a result of the issued share capital reduction referred to in (ii) above;
- (iv) the entire issued share capital of HRIV will be owned by the Company or its wholly owned subsidiary (as the case may be) upon completion of the Proposal; and
- (v) HRIV will apply to the Stock Exchange for the withdrawal of the listing of the HRIV Shares on the Stock Exchange immediately following the Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

The purpose of this circular is to provide you with further information regarding, among others, the Proposal, the Scheme, HRIV and the Company, and to give you notice of the SGM (together with proxy form in relation thereto) to consider and if thought fit, to approve the resolution relating to the Proposal and the Scheme. Your attention is also drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular, the letter from Optima, set out on pages 34 to 70 of this circular and the appendices to this circular.

If you are also a HRIV Shareholder, this circular is not, and should not be construed to be, a solicitation or request for votes or proxies in respect of the securities of HRIV. The Scheme Document will be despatched to HRIV Shareholders for such purposes in due course.

LETTER FROM THE BOARD

2. TERMS OF THE PROPOSAL

Under the Proposal, the Company will make a conditional share exchange offer to the Scheme Shareholders for the cancellation of all the Scheme Shares, in exchange for newly issued Shares in the following ratio, based on the holding of Scheme Shares as at the Scheme Record Date:

For every one Scheme Share held 2.82 Shares

The above exchange ratio has been determined on a commercial basis after taking into account the prevailing and historical market price levels of both the Shares and HRIV Shares traded on the Stock Exchange, the audited consolidated net asset value per Share and per HRIV Share as of 31 December 2019, and other privatization transactions in Hong Kong in recent years.

Comparison to market price per share

The premia represented by the issue of the new Shares as calculated by reference to the various ratios between the volume weighted average prices per Share and the volume weighted average prices per HRIV Share on the Latest Practicable Date, the Last Trading Day and in various historical periods, are as follows:

		Previous period up to and including the Last Trading Day				
		Latest Practicable Date	Last Trading Day	30 trading days	90 trading days	180 trading days
(A)	Volume weighted average price per Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	0.26	0.15	0.15	0.16	0.21
(B)	Volume weighted average price per HRIV Share based on the daily closing prices as quoted on the Stock Exchange (HK\$)	0.35	0.31	0.28	0.29	0.29
(C)	Premium = 2.82x(A)/(B)-1	109.49%	36.45%	51.07%	55.59%	104.21%

LETTER FROM THE BOARD

Notes:

1. “C” corresponds to the premium represented by the issuance of 2.82 new Shares for every one HRIV Share based on the ratio between the volume weighted average price per Share and the volume weighted average price per HRIV Share on any of the specified date or period.
2. The figures shown in the table above are rounded to two decimal places.
3. Exact premium figures may not be replicated using the share prices shown in the table due to rounding differences.

Comparison to net asset value per share

Based on the unaudited consolidated net asset value per Share of approximately HK\$0.65 as at 30 June 2020 (based on the unaudited consolidated net asset value of the Group of approximately HK\$2,336,781,000 as at 30 June 2020 and 3,588,466,011 Shares in issue as at the same date), the implied value of 2.82 Shares (for each HRIV Share to be cancelled under the Scheme) is approximately HK\$1.83, which represents a premium of approximately 157.75% over the unaudited consolidated net asset value per HRIV Share of approximately HK\$0.71 as at 30 June 2020 (based on the unaudited consolidated net asset value of HRIV Group of approximately HK\$1,284,967,000 as at 30 June 2020 and 1,816,000,000 HRIV Shares in issue as at the same date).

Based on the audited consolidated net asset value per Share of approximately HK\$0.37 as at 31 December 2019 (based on the audited consolidated net asset value of the Group of approximately HK\$1,329,097,000 as at 31 December 2019 and 3,588,466,011 Shares in issue as at the same date), the implied value of 2.82 Shares (for each HRIV Share to be cancelled under the Scheme) is approximately HK\$1.04, which represents a premium of approximately 46.48% over the audited consolidated net asset value per HRIV Share of approximately HK\$0.71 as at 31 December 2019 (based on the audited consolidated net asset value of HRIV Group of approximately HK\$1,282,371,000 as at 31 December 2019 and 1,816,000,000 HRIV Shares in issue as at the same date).

Despite the above exchange ratio representing a premium to both market price and net asset value per share of HRIV, the Board, having taken into account the range, mean and median of premium of offer price over the average closing prices for various durations of trading days as observed in a total of 51 privatization transactions in Hong Kong since 2014 up to the Latest Practicable Date (as set out in the table below), considers that the premium represented by the above exchange ratio under the Proposal is in line with such market precedents.

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	Premia of cancellation/offer price ^(Note 1 and 2)		
	Average closing price per share for the last 30 trading days up to and including the last trading day <i>Approximate %</i>	Average closing price per share for the last 90 trading days up to and including the last trading day <i>Approximate %</i>	Average closing price per share for the last 180 trading days up to and including the last trading day <i>Approximate %</i>
Mean	48.2	47.7	45.7
Median	48.4	47.4	43.5
Maximum	132.0	157.4	159.9
Minimum	4.3	5.5	-6.6

Notes:

1. The premia of the cancellation/offer price over the average closing price per share for the respective periods were calculated based on (i) the cancellation/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatization transactions; and (ii) the historical average closing price per share of the relevant subject company of the privatization transactions.
2. For the purpose of the above table, last trading day refers to the relevant last full trading day for the shares of the relevant subject company in the privatization transactions immediately before the publication of the relevant announcement for the privatization transactions.

Accordingly, the Board (including the members of the Independent Board Committee after considering the advice and recommendation of Optima as set out in “Letter from Optima” in this circular) considers the exchange ratio of 2.82 Shares for every Scheme Share cancelled pursuant to the Scheme to be reasonable and in line with current market practice for the purpose of attracting the Scheme Shareholders which are looking to realize their investments in HRIV to accept and approve the Proposal that is in the interests of the Company and the Shareholders as a whole given the likely significant benefits of the Proposal for the Company and the Shareholders as set out in detail in the section headed “4. Reasons for and benefits of the Proposal” below.

New Shares to be issued pursuant to the Scheme

As at the Latest Practicable Date, (i) the issued share capital of HRIV comprised 1,816,000,000 HRIV Shares, all of which would constitute the Scheme Shares; and (ii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HRIV that carry a right to subscribe for or which were convertible or exchangeable into HRIV Shares.

Based on the above exchange ratio, assuming no changes to either the Company’s issued share capital or HRIV’s issued share capital from the Latest Practicable Date to the Effective Date and subject to the Scheme becoming effective, the Company will allot and issue a total of

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5,121,120,000 Shares to the Scheme Shareholders, representing (i) approximately 142.71% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 58.80% of the enlarged issued share capital of the Company upon completion of the Proposal.

It is expected that fractions of Shares will not be issued to the Scheme Shareholders under the Scheme. There will also not be any rounding up of fractions of a Share to a whole Share. If any calculation of a Scheme Shareholder's entitlement to Shares would result in a fraction of a Share, such entitlement will be rounded down to the nearest whole number of Shares.

Although the Scheme Shareholders may receive odd lots of Shares under the Scheme, the Board (including the members of the Independent Board Committee after considering the advice and recommendation of Optima as set out in "Letter from Optima" in this circular), taking into account other privatization transactions in Hong Kong in recent years, does not consider this as rendering the above exchange ratio to be unreasonable or out of line with current market practice, especially when designated broker(s) will be appointed to provide, on a best effort basis, a service to match the sale and purchase of odd lots of Shares for a period of approximately 60 days after the Effective Date. Details of the odd lot matching service will be set out in the Scheme Document.

The Shares to be issued pursuant to the Scheme as consideration for the cancellation and extinguishment of the Scheme Shares are expected to be issued under the specific mandate to be proposed for voting by the Independent Shareholders at the SGM and will be issued free from all liens, charges and encumbrances, and together with all rights attaching to them, including the right to receive all dividends and other distributions, if the record time for determining the entitlement to such dividends and distributions falls on or after the date of issue of the new Shares, and will rank *pari passu* in all respects with all other Shares then in issue. Such specific mandate, if approved, will lapse upon the lapse of the Scheme.

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the Scheme on the Main Board of the Stock Exchange.

3. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on HRIV and all the Scheme Shareholders, subject to the fulfillment or waiver (as applicable) of the Conditions set out below:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

LETTER FROM THE BOARD

- (b) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the HRIV Disinterested Shareholders (being all the Scheme Shareholders, other than the Company and the Concert Parties) that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the HRIV Disinterested Shareholders present and voting either in person or by proxy against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Scheme Shares held by the HRIV Disinterested Shareholders;
- (c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HRIV Shareholders present and voting in person or by proxy at an extraordinary general meeting of HRIV to approve and give effect to:
 - (i) the allotment and issuance of one HRIV Share to the Company (or, as the Company may direct, a wholly owned subsidiary of the Company) for cash at par;
 - (ii) the reduction of the issued share capital of HRIV by cancelling and extinguishing the Scheme Shares;
 - (iii) the increase of the issued share capital of HRIV to the amount prior to the cancellation of the Scheme Shares by issuing to the Company or its wholly owned subsidiary such number of new HRIV Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme minus one;
 - (iv) the application of the credit arising in HRIV's books of accounts as a result of such issued share capital reduction in paying up in full at par value the new HRIV Shares to be issued to the Company or its wholly owned subsidiary (as the case may be), credited as fully paid; and
 - (v) the withdrawal of listing of the HRIV Shares on the Stock Exchange upon the Scheme becoming effective;
- (d) the Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of HRIV, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;
- (e) all necessary Approvals in connection with the Proposal and the Scheme having been obtained from, given by or made with or by (as the case may be) the relevant Authorities, in the PRC, Bermuda, the Cayman Islands, Hong Kong and any other relevant jurisdictions (including the no-objection clearance from the Ministry of Finance of the PRC Government);

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- (f) all necessary Approvals in connection with the Proposal and the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by the relevant Authorities which are not expressly provided for, or are in addition to requirements expressly provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal or any related matters, documents (including circulars) or things, in each case up to and at the time when the Scheme becomes effective;
- (g) the Company having obtained approval of the Independent Shareholders for the Proposal and the Scheme (including, without limitation, the grant of the specific mandate for the allotment and issuance of Shares to the Scheme Shareholders pursuant to the Scheme) in compliance with the Listing Rules;
- (h) the listing committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares to be issued pursuant to the Scheme on the Stock Exchange;
- (i) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or the implementation in accordance with their terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or the implementation in accordance with their terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Company to proceed with the Proposal and the Scheme;
- (j) all necessary consents or waivers which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the HRIV Group having been obtained (and remaining in effect) or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business, assets or liabilities of the HRIV Group; and
- (k) save as publicly announced prior to the date of the Announcement (and except in so far as such event forms part of the Proposal), since 31 December 2019 (being the date to which the latest published audited accounts of HRIV were made up):
 - (i) there having been no material adverse change in the business, financial or trading position or prospects of any member of the HRIV Group to an extent which is material in the context of the HRIV Group taken as a whole or in the context of the Proposal or the Scheme;

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- (ii) there not having been instituted or remaining outstanding any material litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the HRIV Group is a party (whether as plaintiff or defendant or otherwise) and no such proceedings having been threatened in writing against any such member of the HRIV Group and no investigation by any Authorities against or in respect of any member of the HRIV Group (or the business carried on by any such member of the HRIV Group) having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member, in each case which is material and adverse in the context of the HRIV Group taken as a whole or in the context of the Proposal or the Scheme; and
- (iii) each member of the HRIV Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the HRIV Group up to the date immediately preceding the Effective Date, in each case which is material and adverse in the context of the HRIV Group taken as a whole or in the context of the Proposal or the Scheme.

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

The Company and HRIV are indirect subsidiaries of China Huarong, which is controlled by the Ministry of Finance of the PRC Government (the “**PRC Ministry of Finance**”). As the acquisition of the entire issued share capital of HRIV by the Company or its wholly owned subsidiary (as the case may be), and the issuance of new Shares by the Company to the Scheme Shareholders, pursuant to the Proposal and the Scheme will be considered a transaction in state-owned assets, the Proposal and the Scheme are subject to the Condition that no objection having been raised by the PRC Ministry of Finance, which will be an Approval for the purpose of the Conditions set out in paragraphs (e) and (f) above. Based on the enquiries with the PRC Ministry of Finance, the Company understands that the PRC Ministry of Finance has no objection to the Proposal and the Scheme, and no further Approval is required from the PRC Ministry of Finance. In addition, the HRIV Group has entered into certain contractual arrangements (including loan agreements) which require HRIV to maintain its listing status, and the delisting of HRIV pursuant to the Proposal and the Scheme would require the consents or waivers (as the case may be) of the relevant lenders or counterparties for the purpose of the Condition set out in paragraph (j) above. Save for Conditions (d) and (h) and the no-objection clearance from the PRC Ministry of Finance and the consents or waivers as aforementioned in this paragraph, neither the Company nor HRIV is aware of any other Approvals, consents or waivers that are required for the purpose of the Proposal or the Scheme in order to fulfil the Conditions set out in paragraphs (e), (f) and (j) above.

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The Company reserves the right to waive Conditions (j) and/or (k) either in whole or in part, either generally or in respect of any particular matter. Conditions (a) to (i) (inclusive) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Company may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal or Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Company in the context of the Proposal. HRIV has no right to waive any of the Conditions.

As at the Latest Practicable Date, save for Condition (e) (to the extent not required under Conditions (d) and (h)), none of the Conditions has been fulfilled or waived.

When and only if the Conditions are fulfilled or waived (as applicable), HRIV shall deliver to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law a copy of the order of the Court sanctioning the Scheme, whereupon the Scheme will become effective and binding on HRIV and all the Scheme Shareholders.

WARNING: Shareholders and potential investors of the Company should exercise caution when dealing in the Shares and any options or other rights in respect of them. The implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank manager, solicitor or other professional advisers.

4. REASONS FOR AND BENEFITS OF THE PROPOSAL

The Company is engaged in securities business, corporate finance and asset management business through (i) Huarong International Securities Limited, being a licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO, (ii) Huarong International Capital Limited, being a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and (iii) Huarong International Asset Management Limited, being a licensed corporation to conduct Type 9 (asset management) regulated activity under the SFO.

HRIV's principal businesses are direct investments in stock, bonds, funds, derivatives and other financial products ("**HRIV Direct Investment Business**"), and financial services and others including but not limited to finance leasing and money lending ("**HRIV Financial Services Business**"). HRIV provides financial leasing services to industries including logistics, automobile, aviation, solar energy and wind power generation and liquefied natural gas, and provides consulting services on macro-economy, industry analysis, financial product design and other aspects for the above clients.

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The Proposal will allow the Company to achieve economies of scale and cost savings, such as staff costs, which are necessary for sustainable and profitable growth in its licensed businesses including the asset management and direct investment, securities and corporate finance businesses. The combination of the Company and HRIV will create a unified platform, thereby enabling more efficient and focused use of the network and resources of the Huarong brand under the strong support of China Huarong. HRIV's extensive business network outlined above also provides the Company with rich client resources, which could effectively strengthen the Company's businesses.

By joining forces with HRIV, the Company will be well-positioned to implement its development strategy of "investment + investment banking". For example, HRIV has invested in a number of companies' equity capital and this could bring in potential clients and create opportunities for the Company's corporate finance business (i.e. investment banking) in a way that HRIV's investment targets who are seeking investment banking services such as initial public offerings or mergers and acquisitions may become the Company's investment banking's clients. Although 2020 has been a very challenging year for the investment and financial services sector in general, and certain short-term challenges remain, the long-term potential of the investment and financial services market remains significant. The Proposal will best position the Company to capitalize on this long-term growth opportunity.

As members of the China Huarong Group, both the Company and HRIV share the same heritage and have been managed in a similar sound and prudent fashion over the years. This cultural and management fit will facilitate the swift and efficient combination of the two businesses and related realization of synergies.

Specifically, the Board (including the independent non-executive Directors after considering the advice and recommendation of Optima as set out in "Letter from Optima" in this circular) expects to realize the following key benefits through the combination of the Company and HRIV into one single investment and investment banking platform:

Better leverage on the strong support from China Huarong

- The integration of the Company and HRIV into a parent and wholly owned subsidiary relationship would place the Company and HRIV in a better position to exploit the potential business opportunities and to facilitate cooperation between HRIV and the Company that are currently restricted by or subject to the non-competition undertakings given by CHIH (formerly known as Huarong (HK) International Holdings Limited) to the Company (formerly known as Simsen International Corporation Limited) in 2015.
- Following the implementation of the Proposal and the Scheme, the Company will become the only Hong Kong listed entity in addition to China Huarong within the China Huarong Group, and will be able to better leverage on the strong support from China Huarong in terms of brand strength, industry experience and service network, with China Huarong being one of the four state-owned asset management companies in the PRC and being ranked 83rd in the 2019 list of top 500 Chinese companies by Fortune. The integration of

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the Company and HRIV into one single platform is most likely to result in increased focus and support by their joint parent China Huarong, whereas previously China Huarong has had to direct its focus, policies and resources on the growth of two separate companies with similar business plans. The simplification of the group structure would also create greater flexibility to manage the Company's and HRIV's businesses and increase efficiency in decision-making and decision implementation. With China Huarong being able to plan and implement business development strategies and measures in a unified manner, internal friction and waste of resources can be minimized, and hence efficiency, brand influence and market competitiveness can be greatly enhanced.

Enhanced scale and focus through the combination of complementary businesses

- Following the implementation of the Proposal and the Scheme, the Company and HRIV will consolidate functions which overlap with each other. By consolidating functions which are common to both, they will create an industry player of scale with the diversity required to increase their overall market share in a sustainable and economically beneficial fashion. Via combining the respective brands, services, markets and customer bases of both the Company and HRIV, the post-combination business will have greater flexibility in focusing on the provision of services at a higher quality going forward. Such a strategy will enhance the Company's overall competitiveness in the market, and will advance the respective businesses of the Company and HRIV to a much greater extent than what they would have achieved separately by themselves, thereby generating more revenue for the Enlarged Group.
- By consolidating functions which are common to both, the Company and HRIV will be able to place more focus on their respective specialties which are unique to their own respective business plans and management teams. Following the implementation of the Proposal, the Company will focus on, and develop, its licensed businesses as the only fully-licensed listed entity under the "investment + investment banking" business model. By retaining and differentiating themselves in their unique areas of specialty, such a strategy will result in greater efficiencies and a more optimal business structure, which will in turn accelerate the realization of economies of scale.

Potential for significant cost savings

- There will be cost savings achievable through the elimination of certain overlapped corporate functions, particularly in the areas of the rationalization of existing office space and other corporate overheads.
- Cost savings are also expected as a result of the centralization of key operational functions of both companies, such as investment evaluation and monitoring, IT systems, back office administration and customer service functions. This initiative will help facilitate the centralization of key operational functions and management of both companies.

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- The larger combined investment assets of the Company and HRIV are expected to provide economies of scale in the investment operations, which should result in more efficient costs levels and related enhancements in yield and return.
- The listing of HRIV Shares requires HRIV to bear administrative, compliance and other listing-related costs and expenses. If these costs and expenses are eliminated, the funds saved could be used for business operations.

Potential to drive additional revenue across platforms

- Cross-selling of specialties of the Company and HRIV between the existing customers of the Company and HRIV is expected to yield additional revenues, with customers being provided with a more complete range of service choices. For example, the Company's asset management service could complement HRIV's asset restructuring service, while the Company's financing advisory service could also complement the mergers and acquisitions service of HRIV. The competitiveness of the Company and HRIV in attracting new customers will also be improved with the enhanced service portfolio.
- The Company and HRIV will be able to access, tap into and benefit from each other's marketing channels and relationships developed with customers and other external parties. Through better co-ordination of their respective marketing and business development strategies, the Company and HRIV are expected to optimize efficiency and profitability across their various networks.
- The expanded existing customer bases of both the Company and HRIV will directly and immediately increase the scale of the combined customer services platform. The combined customer services system will be significantly enhanced and optimized through the complementary advantages of their respective existing systems.

Increased capital management efficiency

- The combined company will benefit from increased capital management efficiency due to the pooling of capital resources and better allocation of capital amongst its various business lines. In particular, the Company's management will be able to take advantage of the broader platform which will afford them greater flexibility to deploy capital in a manner which maximizes the return on capital for the Company.

Greater capital markets presence

- The Company's market capitalization is expected to increase and the shareholding base of the Company will be broadened as a result of the issuance of new Shares, representing an increase of 142.71% of its current shares outstanding. Accordingly, the Company's position as a major listed company on the Stock Exchange is expected to be further enhanced. The increased size and free float could also potentially improve the liquidity in Shares, increase the attractiveness of the Company to institutional investors and increase its access to the

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capital markets. In return, the Company would be able to utilize the combined liquidity resources of the Enlarged Group more effectively for the benefit of all shareholders of the Company.

The Board's view

Based on the foregoing, the Board (including the members of the Independent Board Committee after considering the advice and recommendation of Optima as set out in "Letter from Optima" in this circular, and Mr. Yang Rungui who has become a Director on 24 August 2020 and concurs with the view of the other Directors) considers that the terms of the Proposal are fair and reasonable and the implementation of the Proposal is in the interests of the Company and the Shareholders as a whole.

5. THE COMPANY'S INTENTION REGARDING THE HRIV GROUP

Save as mentioned under the section headed "4. Reasons for and benefits of the Proposal" above, upon successful implementation of the Scheme and the Proposal: (i) the Company intends to continue the operation of the existing business of the HRIV Group without making any major changes; (ii) the Company has no intention to discontinue the employment of the employees of the HRIV Group; and (iii) the Company does not plan to redeploy any of the fixed assets of the HRIV Group. However, the Company reserves the right to make any changes that it deems necessary or appropriate to the HRIV Group's business and operations, to explore opportunities arising from time to time for acquisitions, disposals and other structuring possibilities, and that the Company will continue to explore such opportunities as they arise from time to time, subject to compliance with any relevant rules and regulations.

6. SHAREHOLDING STRUCTURE OF HRIV

As at the Latest Practicable Date, (i) the authorized share capital of HRIV was HK\$200,000,000 divided into 20,000,000,000 HRIV Shares; (ii) the issued share capital of HRIV comprised 1,816,000,000 HRIV Shares, all of which will constitute the Scheme Shares; and (iii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HRIV that carried a right to subscribe for or which were convertible or exchangeable into HRIV Shares.

Assuming there is no change to the issued share capital of HRIV from the Latest Practicable Date up to the Effective Date, the table below sets out the shareholding structure of HRIV (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Proposal:

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HRIV Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal (Note 6)	
	Number of HRIV Shares	Approximate %	Number of HRIV Shares	Approximate %
The Company or its wholly owned subsidiary (Note 1)	–	–	1,816,000,000	100.00
Concert Parties				
China Huarong and its controlled corporations (other than the Company) (Notes 2 and 4)	926,042,000	50.99	–	–
Mr. Jia and his controlled corporations (Notes 3 and 4)	353,375,000	19.46	–	–
Renco and its subsidiaries (including Power Tiger) (Note 5)	84,170,000	4.63	–	–
Sub-total of the Company and the Concert Parties	<u>1,363,587,000</u>	<u>75.09</u>	<u>1,816,000,000</u>	<u>100.00</u>
HRIV Disinterested Shareholders	<u>452,413,000</u>	<u>24.91</u>	–	–
Total number of Scheme Shares	<u>1,816,000,000</u>	<u>100.00</u>	<u>–</u>	<u>–</u>

Notes:

- The Company reserves the right to require HRIV to issue new HRIV Shares to a wholly owned subsidiary of the Company (in lieu of the Company itself) immediately after the cancellation and extinguishment of the Scheme Shares upon the Scheme becoming effective. Please see note 6 below for further details.
- 926,042,000 HRIV Shares are beneficially owned by Right Select which is wholly owned by CHIH, which is in turn owned as to 84.84% by China Huarong, 1.80% by Huarong Zhiyuan Investment & Management Co., Ltd. (“**Huarong Zhiyuan**”), and 13.36% by Huarong Shiye Investment Management Company Limited (華融實業投資管理有限公司) (formerly known as Huarong Real Estate Co., Ltd.) (“**Huarong Shiye**”). Huarong Zhiyuan and Huarong Shiye are wholly owned by China Huarong. CHIH is also the holding company of the Company. Hence, Right Select and the Company are fellow subsidiaries and Right Select is acting in concert with the Company.
- 353,375,000 HRIV Shares are beneficially owned by Tian Yuan Asset Management, a company that Mr. Jia indirectly owns 99.88% of its interest. Mr. Jia also controls 20% or more of the issued share capital of the Company and therefore, by virtue of Note 1 to the definition of “acting in concert” under the Takeovers Code, Tian Yuan Asset Management (as a company controlled by Mr. Jia under class (8) of the definition of “acting in concert” under the Takeovers Code) is deemed acting in concert with the Company in respect of the Proposal and the Scheme.

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4. 353,375,000 HRIV Shares held by Tian Yuan Asset Management are pledged to Shinning Rhythm Limited (“**Shinning Rhythm**”). Shinning Rhythm is wholly owned by China Huarong Overseas Investment Holdings Co., Limited (“**Huarong Overseas**”) which is in turn wholly owned by Huarong Huaqiao Asset Management Co., Ltd. (“**Huarong Huaqiao**”). Huarong Huaqiao is owned as to 91% by Huarong Zhiyuan, which is a wholly owned subsidiary of China Huarong.
5. Power Tiger, an indirect wholly-owned subsidiary of Renco, has pledged 84,170,000 HRIV Shares beneficially held by it to Tian Yuan Investment Holding Co., Limited (“**Tian Yuan Investment**”), a company which is indirectly owned as to 99.88% by Mr. Jia, pursuant to a share charge dated 25 October 2019 (the “**Share Charge**”). Tian Yuan Investment has assigned its rights and interests in the Share Charge to Shinning Rhythm with effect from 25 October 2019. As a result of the above transaction, Renco and its subsidiaries (including Power Tiger) are deemed acting in concert with the Company in respect of the Proposal and the Scheme. Based on information available in the public domain, as of 26 August 2020 (being the date on which the latest disclosure of interests filing under the SFO with respect to Renco was made), Renco was held as to 28.3% by Eternal Glory Holdings Limited (“**Eternal Glory**”) (as the largest shareholder of Renco) which is wholly-owned by Mr. Li Yongjun. To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, (i) Eternal Glory is principally engaged in investment holding; and (ii) Mr. Li Yongjun is a third party independent of each of the Company and HRIV.
6. Under the Scheme, on the Effective Date (i) one HRIV Share will be allotted and issued to the Company (or, as the Company may direct, a wholly owned subsidiary of the Company) and (ii) subject to and forthwith upon the allotment and issuance of the HRIV Share referred to in (i), the issued share capital of HRIV will be reduced by cancelling the Scheme Shares. On the assumption that there is no other change in shareholding of HRIV before completion of the Proposal, forthwith upon such reduction, the issued share capital of HRIV will be increased to its former amount by the issue at par to the Company or its wholly owned subsidiary (as the case may be), credited as fully paid, of the same number of HRIV Shares as the number of the Scheme Shares cancelled minus one. The reserve created in HRIV’s books of account as a result of the capital reduction will be applied in paying up in full at par the new HRIV Shares so issued to the Company or its wholly owned subsidiary (as the case may be).
7. The aggregate of the percentage figures in the table above may not add up to the relevant sub-total or total percentage figures shown due to rounding of the percentage figures to two decimal places.

7. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, (i) the authorized share capital of the Company was HK\$1,000,000,000 divided into 1,000,000,000,000 Shares; (ii) the issued share capital of the Company comprised 3,588,466,011 Shares; and (iii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carried a right to subscribe for or which were convertible or exchangeable into Shares.

Assuming there is no change to the issued share capital of the Company and the issued share capital of HRIV from the Latest Practicable Date up to the Effective Date other than the issue of Shares pursuant to the Scheme, the allotment and issuance of the Shares to the Scheme Shareholders pursuant to the Scheme will not result in a change in control of the Company, as immediately upon completion of the Proposal, China Huarong and its controlled corporation will continue to be the only controlling shareholder of the Company, holding approximately 51.00% of the total issued share capital of the Company.

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Assuming there is no change to the issued share capital of the Company and the issued share capital of HRIV from the Latest Practicable Date up to the Effective Date other than the issue of Shares pursuant to the Scheme, the table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal (Note 5)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Substantial shareholders				
China Huarong and its controlled corporations (Notes 1 and 3)	1,830,117,664	51.00	4,441,556,104	51.00
Mr. Jia and his controlled corporations (Notes 2 and 3)	<u>775,220,529</u>	<u>21.60</u>	<u>1,771,738,029</u>	<u>20.34</u>
Sub-total of substantial shareholders	<u>2,605,338,193</u>	<u>72.60</u>	<u>6,213,294,133</u>	<u>71.34</u>
Public shareholders (Note 4)	<u>983,127,818</u>	<u>27.40</u>	<u>2,496,291,878</u>	<u>28.66</u>
Total number of Shares	<u>3,588,466,011</u>	<u>100.00</u>	<u>8,709,586,011</u>	<u>100.00</u>

Notes:

- 1,830,117,664 Shares are beneficially owned by Camellia which is wholly owned by CHIH. CHIH is owned as to 84.84% by China Huarong, 1.80% by Huarong Zhiyuan and 13.36% by Huarong Shiye. Each of Huarong Zhiyuan and Huarong Shiye is wholly owned by China Huarong.
- China Tian Yuan Finance Group (Holdings) Limited (“**Tian Yuan Group**”) is deemed or taken to be interested in (i) 129,000,000 Shares held by Hero Link which is held as to 82% by Tian Yuan Int’l; and (ii) 646,220,529 Shares held by Tian Yuan Int’l. Tian Yuan Int’l is a wholly owned subsidiary of Tian Yuan Group which, in turn is wholly owned by Mr. Jia.
- 129,000,000 Shares held by Hero Link and 646,220,529 Shares held by Tian Yuan Int’l are pledged to Shinning Rhythm respectively. Shinning Rhythm is wholly owned by Huarong Overseas which is in turn wholly owned by Huarong Huaqiao. Huarong Huaqiao is owned as to 91% by Huarong Zhiyuan, which is a wholly owned subsidiary of China Huarong.
- The new Shares to be issued to Power Tiger (see Note 5 below) will be considered as held in public hands pursuant to Rule 8.24 of the Listing Rules.

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5. Based on the exchange ratio of 2.82 Shares for every Scheme Share cancelled pursuant to the Scheme, assuming no changes to the respective issued share capital of the Company and HRIV from the Latest Practicable Date to the Effective Date, a total of 5,121,120,000 Shares will be allotted and issued by the Company to the Scheme Shareholders, including as to (i) 2,611,438,440 Shares to Right Select, (ii) 996,517,500 Shares to Tian Yuan Asset Management, (iii) 237,359,400 Shares to Power Tiger, and (iv) in aggregate 1,275,804,660 Shares to the HRIV Disinterested Shareholders.
6. The aggregate of the percentage figures in the table above may not add up to the relevant sub-total or total percentage figures shown due to rounding of the percentage figures to two decimal places.

8. INFORMATION ON THE HRIV GROUP

HRIV is an exempted company incorporated in the Cayman Islands with limited liability, and its shares are listed on the Main Board of the Stock Exchange (stock code: 2277). The HRIV Group is principally engaged in (i) direct investments in an array of formats including equity, bonds, funds, derivative instruments and other financial products, (ii) mergers and acquisitions and asset restructuring and (iii) provision of financial leasing services, business consulting services and other related services.

According to the audited consolidated financial statements of HRIV in its published annual report for the year ended 31 December 2019 and the unaudited consolidated financial statements of HRIV in its published interim results announcement for the six months ended 30 June 2020, the consolidated financial results of the HRIV Group for the two years ended 31 December 2019 and for the six months ended 30 June 2020 are as follows:

	For the year ended 31 December		For the six months
	2018	2019	ended 30 June
	(audited and	(audited)	2020
	restated)		(unaudited)
Profit/(loss) before tax	HK\$78,735,000	(HK\$1,209,853,000)	(HK\$2,307,000)
Profit/(loss) for the period from continuing operations	HK\$92,606,000	(HK\$1,204,019,000)	(HK\$2,307,000)

The audited consolidated net asset value of HRIV Group as at 31 December 2019 was approximately HK\$1,282,371,000 according to its latest audited consolidated financial statements in its published annual report for the year ended 31 December 2019. The unaudited consolidated net asset value of HRIV Group as at 30 June 2020 was approximately HK\$1,284,967,000, according to its latest unaudited consolidated financial statements in its published interim results announcement for the six months ended 30 June 2020.

9. INFORMATION ON THE COMPANY

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 993). The Company and its subsidiaries are principally engaged in (i) asset management and direct investments in stocks, bonds, funds, derivative instruments and other financial provisions, (ii) the securities business including provision of brokerage services, margin financing and stocks, futures and options trading services, and (iii) the corporate finance business by providing institutional clients with

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comprehensive securities issuance and underwriting and financing advisory services. The ultimate controlling shareholder of the Company is China Huarong, which is controlled by the Ministry of Finance of the PRC Government.

10. INFORMATION ON RIGHT SELECT

Based on information available in the public domain and to the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, (i) Right Select is an investment holding company incorporated in the British Virgin Islands with limited liability and is principally engaged in the financial investment business including fund investment, provision of loans and equity investments; and (ii) the original acquisition cost of the 926,042,000 HRIV Shares held by Right Select as at the Latest Practicable Date was approximately HK\$685,315,020. The ultimate controlling shareholder of Right Select is China Huarong, which is controlled by the Ministry of Finance of the PRC Government.

11. INFORMATION ON TIAN YUAN ASSET MANAGEMENT

Based on information available in the public domain and to the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, (i) Tian Yuan Asset Management is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding; and (ii) the original acquisition cost of the 353,375,000 HRIV Shares held by Tian Yuan Asset Management as at the Latest Practicable Date was approximately HK\$300,368,750. The ultimate controlling shareholder of Tian Yuan Asset Management is Mr. Jia.

12. WITHDRAWAL OF LISTING OF HRIV SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. HRIV will apply to the Stock Exchange for withdrawal of the listing of the HRIV Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the HRIV Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the HRIV Shares on the Stock Exchange will be effective.

13. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. If the Scheme is not approved or the Proposal otherwise lapses, the listing of HRIV Shares on the Stock Exchange will not be withdrawn. If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under Rule 31 of the Takeovers Code on making subsequent offers, to the effect that neither the Company nor any person who acted in concert with it in the course of the Proposal nor any person who is subsequently acting in concert with any of them may, within 12 months from the date on which

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the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for HRIV, except with the consent of the Executive.

14. LISTING RULES IMPLICATIONS

The Shares to be issued pursuant to the Scheme as consideration for the cancellation and extinguishment of the Scheme Shares will be allotted and issued pursuant to the specific mandate to be sought from the Independent Shareholders at the SGM.

As the highest of the applicable percentage ratios (as defined in the Listing Rules) for the Proposal and the Scheme exceeds 100%, the Proposal and the Scheme constitute a very substantial acquisition for the Company which is subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to the Proposal and the Scheme, the Company will make a conditional share exchange offer for cancellation of all the Scheme Shares held by, and issue new Shares to the Scheme Shareholders, including Right Select and Tian Yuan Asset Management. China Huarong is a connected person of the Company by virtue of being its indirect substantial shareholder, and Right Select is an associate (as defined under the Listing Rules) of China Huarong by virtue of being ultimately wholly-owned by China Huarong and therefore Right Select is a connected person of the Company. In addition, Mr. Jia is a connected person of the Company by virtue of being its indirect substantial shareholder, and Tian Yuan Asset Management is an associate (as defined under the Listing Rules) of Mr. Jia by virtue of being indirectly 99.88% owned by him and therefore Tian Yuan Asset Management is a connected person of the Company. As such, the Proposal and the Scheme (including the cancellation of relevant Scheme Shares held by Right Select and Tian Yuan Asset Management and the issue of new Shares to each of them thereunder) also constitute a connected transaction for the Company which is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors after all reasonable enquiries have been made, save for Right Select and Tian Yuan Asset Management, and save as otherwise disclosed in this circular (including in relation to Power Tiger and Renco), the Scheme Shareholders and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

At the time of the approval of relevant resolutions of the Board in relation to the Proposal and the Scheme, each of Mr. Yu Meng, Mr. Wang Junlai and Ms. Wang Qi had abstained from voting on such resolutions of the Board as he/she was deemed to have a material interest in the Proposal and the Scheme by virtue of his/her overlapping executive roles in CHIH, the Company and/or HRIV (as the case may be). In particular, (i) Mr. Yu Meng was an executive Director and the chairman of the Board (prior to his resignation from the relevant positions of the Company with effect from 24 August 2020), and was also an executive director of CHIH (an indirect parent company of the Company and HRIV) (prior to his resignation from such position of CHIH with effect from 28 August 2020) and an executive director and the chairman of the board

LETTER FROM THE BOARD

of directors of HRIV (prior to his resignation from the relevant positions of HRIV with effect from 25 August 2020); (ii) Mr. Wang Junlai is an executive Director and is also an executive director of CHIH; and (iii) Ms. Wang Qi is a non-executive director of each of the Company and HRIV and she holds senior management position in CHIH. Save for Mr. Yu Meng, Mr. Wang Junlai and Ms. Wang Qi, none of the other Directors had a material interest in the Proposal and the Scheme, and therefore none of the other Directors had abstained from voting on the relevant resolutions of the Board.

15. FINANCIAL EFFECTS OF THE PROPOSAL

The consideration for implementing the Scheme will be fully satisfied by way of issuance of new Shares. Accordingly, there is no requirement for financing the consideration in respect of the Scheme.

Upon the Scheme becoming effective, HRIV will become a wholly-owned subsidiary of the Company and the assets, liabilities and financial results of the HRIV Group will be consolidated into those of the Company.

Assets and liabilities

As illustrated in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, assuming that completion of the Proposal had taken place on 30 June 2020, the total assets of the Enlarged Group as at 30 June 2020 would increase from approximately HK\$13,211.5 million (as extracted from the interim results announcement of the Company for the six months ended 30 June 2020) to approximately HK\$18,964.3 million on a pro forma basis and the total liabilities of the Enlarged Group as at 30 June 2020 would increase from approximately HK\$10,874.7 million (as extracted from the interim results announcement of the Company for the six months ended 30 June 2020) to approximately HK\$15,342.5 million on a pro forma basis.

Earnings

As illustrated in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, assuming that completion of the Proposal had taken place on 1 January 2019, the revenue of the Enlarged Group for the year ended 31 December 2019 would increase from approximately HK\$1,667.2 million (as extracted from the audited consolidated financial statements of the Company in its published annual report for the year ended 31 December 2019) to approximately HK\$2,178.4 million on a pro forma basis and the loss attributable to shareholders would increase from approximately HK\$1,545.9 million (as extracted from the audited consolidated financial statements of the Company in its published annual report for the year ended 31 December 2019) to approximately HK\$2,536.1 million on a pro forma basis.

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Further details on the unaudited pro forma financial information of the Enlarged Group are set out in Appendix V to this circular. However, Shareholders should note that since the fair value of the assets and liabilities of the HRIV Group may be different at completion of the Proposal as compared to their respective values used in the preparation of the pro forma financial information, the actual amounts of assets and liabilities to be recorded in the financial statements of the Enlarged Group may be different from the estimated amounts shown in the pro forma financial information. As the pro forma financial information is for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the results and financial position of the Enlarged Group for any further financial periods or dates.

Based on the potential benefits of the Proposal as detailed in the section headed “4. Reasons for and benefits of the Proposal” above, the Directors (including the independent non-executive Directors after considering the advice and recommendation of Optima as set out in “Letter from Optima” in this circular) are of the view that the Proposal would likely allow the Company to achieve economies of scale and cost savings and hence have a positive impact on the earnings of the Enlarged Group.

16. SGM

The SGM will be convened and held for the purpose of considering and, if thought fit, approving, among other things, the Proposal and the Scheme, including without limitation, the allotment and issuance of Shares under specific mandate as consideration for the cancellation and extinguishment of the Scheme Shares.

A notice convening the SGM to be held at 11:30 a.m. on Tuesday, 27 October 2020 or any adjournment thereof is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk). Whether or not you are able to attend and vote at the SGM in person, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return it to the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. not later than 11:30 a.m. on Sunday, 25 October 2020 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the SGM or any adjournment thereof (as the case may be) if they so wish.

The resolution proposed at the SGM will be taken by way of poll as required under Rule 13.39(4) of the Listing Rules. The ordinary resolution will be passed if not less than half of the votes cast by the Independent Shareholders, present and voting in person or by proxy at the SGM, are in favour of the ordinary resolution. An announcement on the poll results will be made by the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

Camellia held 1,830,117,664 Shares, representing approximately 51% of issued share capital of the Company, as at the Latest Practicable Date. As Camellia, Right Select, the Company and HRIV are fellow subsidiaries of each other by virtue of each being an indirect subsidiary of China Huarong, Camellia is deemed to have material interest in the Proposal and the Scheme and shall abstain from voting on the resolution to be proposed at the SGM for approving the Proposal and the Scheme.

Hero Link and Tian Yuan Int'l held 129,000,000 Shares and 646,220,529 Shares, representing approximately 3.59% and 18.01% of the issued share capital of the Company, respectively, as at the Latest Practicable Date. As Mr. Jia indirectly controls the majority shareholding in all of Hero Link, Tian Yuan Int'l and Tian Yuan Asset Management, each of Hero Link and Tian Yuan Int'l is also deemed to have material interest in the Proposal and the Scheme and shall abstain from voting on the relevant resolution to be proposed at the SGM for approving the Proposal and the Scheme.

To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, save for Camellia, Tian Yuan Int'l and Hero Link, (i) no Shareholders or any of their respective associates (as defined in the Listing Rules) has any material interest in the Proposal and the Scheme; and (ii) no Shareholders would be required to abstain from voting on the resolution to be proposed at the SGM for approving the Proposal and the Scheme.

17. RECOMMENDATIONS

Optima has been appointed by the Company as its independent financial adviser in relation to the Proposal and the Scheme pursuant to Rule 2.4 of the Takeovers Code. Optima has also been appointed by the Company as its independent financial adviser pursuant to Rule 14A.44 of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposal and the Scheme. Optima is of the view that the terms of the Proposal and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned, and the Proposal and the Scheme are in the interests of the Company and the Shareholders as a whole. A letter from Optima containing its full advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Proposal is set out in the "Letter from Optima" in this circular.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Mr. Ma Lishan and Mr. Guan Huanfei, has been established by the Company to advise the Independent Shareholders (i) as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and (ii) as to voting. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the Proposal is set out in the "Letter from the Independent Board Committee" in this circular.

LETTER FROM THE BOARD

Having taken into account the objectives and reasons for, and the benefits of, the Proposal and its effects as set out in this circular, the Directors (including members of the Independent Board Committee, having been advised in this regard by Optima, and Mr. Yang Rungui who has become a Director on 24 August 2020 and concurs with the view of the other Directors) consider that, while the Proposal and the Scheme may not be in the ordinary and usual course of business of the Group, the terms of the Proposal and the Scheme are fair and reasonable and are on normal commercial terms, and that the making of the Proposal, the implementation of the Scheme and the issuance of Shares as contemplated under the Proposal are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including members of the Independent Board Committee whose opinion and recommendations are contained in the “Letter from the Independent Board Committee” in this circular, having been advised in this regard by Optima) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM for approving the Proposal, the Scheme and the issuance of Shares as contemplated under the Proposal.

You are advised to read the letter from the Independent Board Committee and the letter from Optima mentioned above before deciding how to vote on the resolution to be proposed at the SGM for approving the Proposal and the Scheme.

18. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the board of directors of
Huarong International Financial Holdings Limited
Mr. Yang Rungui
Chairman



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 993)

25 September 2020

To the Independent Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND
NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO
THE PROPOSAL FOR THE PRIVATIZATION OF
HUARONG INVESTMENT STOCK CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW;**

AND

**(2) PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE
AS CONSIDERATION FOR THE CANCELLATION AND
EXTINGUISHMENT OF THE SCHEME SHARES UNDER THE SCHEME**

We refer to the circular (the “**Circular**”) dated 25 September 2020 issued by the Company to the Shareholders in relation to the Proposal and the Scheme, of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as given to them in the Circular.

We, being the independent non-executive Directors, have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders in respect of the Proposal, as to whether, in our opinion, the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and how the Independent Shareholders should vote.

Optima has been appointed by the Company, with our approval, as (i) its independent financial adviser in relation to the Proposal and the Scheme pursuant to Rule 2.4 of the Takeovers Code; and (ii) its independent financial adviser pursuant to Rule 14A.44 of the Listing Rules to advise us and the Independent Shareholders in respect of the Proposal and the Scheme.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board as set out on pages 8 to 31 of the Circular, as well as the letter from the Independent Financial Adviser as set out on pages 34 to 70 of the Circular which sets out details of the advice from Optima together with the principal factors and reasons it has taken into account in arriving at its recommendations.

Having considered (a) the objectives and reasons for, and the benefits of, the Proposal and its effects as set out in the Circular and (b) the terms of the Proposal, and having taken into account the advice of the Independent Financial Adviser, and in particular, the factors, reasons and recommendations set out in the letter from the Independent Financial Adviser in the Circular, we consider that although the Proposal and the Scheme are not in the ordinary and usual course of business of the Group, the terms of the Proposal and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned and the Proposal and the Scheme are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the Proposal, the Scheme and the issuance of Shares as contemplated under the Proposal.

Yours faithfully,
Independent Board Committee of
Huarong International Financial Holdings Limited

Mr. Hung Ka Hai Clement
*Independent non-executive
Director*

Mr. Ma Lishan
*Independent non-executive
Director*

Mr. Guan Huanfei
*Independent non-executive
Director*

LETTER FROM OPTIMA

The following is the text of the letter from Optima containing its advice to the Independent Board Committee and the Independent Shareholders on the Proposal and the Scheme, which is prepared for the purpose of incorporation in this circular.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

25 September 2020

To the Independent Board Committee and Independent Shareholders

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND
NON-EXEMPT CONNECTED TRANSACTION IN RELATION TO
THE PROPOSAL FOR THE PRIVATISATION OF
HUARONG INVESTMENT STOCK CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposal and the Scheme. Details of the Proposal and the Scheme are set out in the circular of the Company dated 25 September 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 3 July 2020, the Board requested the HRIV Board to put forward to the Scheme Shareholders the Proposal regarding the privatisation of HRIV by the Company by way of a scheme of arrangement under section 86 of the Companies Law involving, among other things (i) the allotment and issuance to the Company or (as the Company may direct) its wholly-owned subsidiary one HRIV Share; (ii) subject to and forthwith upon the allotment and issuance of one HRIV Share referred to in (i) above taking effect, the reduction of the issued share capital of HRIV by the cancellation of all the Scheme Shares on the Effective Date, and in consideration therefor, 2.82 new Shares will be allotted and issued to the Scheme Shareholders for each Scheme Share so cancelled; (iii) forthwith upon the issued share capital reduction referred to in (ii) above taking effect, the restoration of the issued share capital of HRIV to the amount immediately before the cancellation of the Scheme Shares by issuing new HRIV Shares to the Company (or, as the Company may direct, a wholly-owned subsidiary of the Company) credited as fully paid out of the credit arising in HRIV’s books of account as a result of the issued share

LETTER FROM OPTIMA

capital reduction referred to in (ii) above; and (iv) the withdrawal of the listing of the HRIV Shares on the Stock Exchange immediately following the Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

The Shares to be issued pursuant to the Scheme as consideration for cancellation and extinguishment of the Scheme Shares are expected to be allotted and issued pursuant to the specific mandate to be sought from the Independent Shareholders at the SGM.

As the highest of the applicable percentage ratios (as defined in the Listing Rules) for the Proposal and the Scheme exceeds 100%, the Proposal and the Scheme constitute a very substantial acquisition for the Company which is subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Proposal and the Scheme involve a conditional share exchange offer to be made by the Company for cancellation of all the Scheme Shares held by, and the issue of new Shares by the Company to, the Scheme Shareholders, including Right Select (a company ultimately and wholly owned by China Huarong, an indirect substantial Shareholder) and Tian Yuan Asset Management (a company indirectly owned as to 99.88% by Mr. Jia who is an indirect substantial Shareholder), both being connected persons of the Company, the Proposal and the Scheme (including the cancellation of relevant Scheme Shares held by Right Select and Tian Yuan Asset Management and the issue of new Shares to each of them thereunder) also constitute a connected transaction for the Company which is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Mr. Ma Lishan and Mr. Guan Huanfei, has been established by the Company to advise the Independent Shareholders (i) as to whether the terms of the Proposal and the Scheme are fair and reasonable; and (ii) as to voting. We, Optima Capital Limited, have been appointed by the Company as (i) the independent financial adviser in relation to the Proposal and the Scheme pursuant to Rule 2.4 of the Takeovers Code; and (ii) the independent financial adviser pursuant to Rule 14A.44 of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposal and the Scheme.

We are not associated or connected with (i) the Company; (ii) HRIV; (iii) the controlling shareholder(s) of the Company and HRIV (including China Huarong, Huarong Zhiyuan, Huarong Shiye, CHIH, Right Select and Camellia); (iv) any party acting, or presumed to be acting, in concert with any of the above (including Huarong Huaqiao, Huarong Overseas, Shinning Rhythm, Mr. Jia, Tian Yuan Asset Management, Tian Yuan Investment, Hero Link, Tian Yuan Int'l, Tian Yuan Group, Renco and Power Tiger); or (v) any company controlled by any of them. We are therefore considered eligible to give independent advice on the Proposal and the Scheme. Apart from normal professional fees payable to us in connection with this appointment or other similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or HRIV, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

LETTER FROM OPTIMA

In formulating our opinion, we have reviewed, among other things, (i) the Announcement; (ii) the Circular; (iii) the annual reports of the Company and HRIV for the three years ended 31 December 2017, 2018 and 2019; and (iv) the interim results announcements of the Company and HRIV for the six months ended 30 June 2020. We have also relied on the information and facts supplied, and the opinions expressed, by the management of the Company and HRIV and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respect at the time they were made and up to the date of this letter. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group and the HRIV Group, nor have we carried out any independent verification of the information supplied.

THE PROPOSAL AND THE SCHEME

The principal terms of the Proposal and the Scheme are summarised below:

1. Terms of the Proposal

Under the Proposal, the Company will make a conditional share exchange offer to the Scheme Shareholders for the cancellation of all the Scheme Shares, in exchange for newly issued Shares in the following ratio, based on the holding of Scheme Shares as at the Scheme Record Date:

For every one Scheme Share held 2.82 Shares

According to the letter from the Board contained in the Circular, the above exchange ratio (the “**Exchange Ratio**”) has been determined on a commercial basis after taking into account the prevailing and historical market price levels of both the Shares and the HRIV Shares traded on the Stock Exchange, the audited consolidated net asset value per Share and per HRIV Share as of 31 December 2019, and the terms of other privatisation transactions in Hong Kong in recent years.

2. New Shares to be issued pursuant to the Scheme

As at the Latest Practicable Date, (i) the issued share capital of HRIV comprised 1,816,000,000 HRIV Shares, all of which would constitute the Scheme Shares; and (ii) there were no outstanding options, convertible securities, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by HRIV that carry a right to subscribe for or which were convertible or exchangeable into HRIV Shares.

LETTER FROM OPTIMA

Based on the Exchange Ratio, assuming no changes to either the Company's issued share capital or HRIV's issued share capital from the Latest Practicable Date to the Effective Date and subject to the Scheme becoming effective, the Company will allot and issue a total of 5,121,120,000 Shares to the Scheme Shareholders, representing (i) approximately 142.71% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 58.80% of the enlarged issued share capital of the Company upon completion of the Proposal.

It is expected that fractions of Shares will not be issued to the Scheme Shareholders under the Scheme and there will not be any rounding up of fractions of a Share to a whole Share. If any calculation of a Scheme Shareholder's entitlement to Shares would result in a fraction of a Share, such entitlement will be rounded down to the nearest whole number of Shares.

It is noted that the Scheme Shareholders may receive odd lots of the Shares under the Scheme. Taking into account other privatisation transactions in Hong Kong in recent years, we do not consider this would render the Exchange Ratio to be unreasonable or out of line with current market practice, especially when designated broker(s) will be appointed to provide, on a best effort basis, a service to match the sale and purchase of odd lots of the Shares for a specified period after the Effective Date.

The Shares to be issued pursuant to the Scheme as consideration for the cancellation and extinguishment of the Scheme Shares will be issued under the specific mandate to be proposed for voting by the Independent Shareholders at the SGM, and will be issued free from all liens, charges and encumbrances, and together with all rights attaching to them, including the right to receive all dividends and other distributions, if the record time for determining the entitlement to such dividends and distributions falls on or after the date of issue of the new Shares, and will rank pari passu in all respects with all other Shares then in issue. Such specific mandate, if approved, will be valid until the earlier of completion of the Proposal or lapse of the Scheme.

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the Scheme on the Main Board of the Stock Exchange.

3. Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on HRIV and all the Scheme Shareholders, subject to the fulfillment or waiver (as applicable) of a number of conditions including, among others,

- (i) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

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- (ii) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the HRIV Disinterested Shareholders (being all the Scheme Shareholders other than the Company and the Concert Parties) that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the HRIV Disinterested Shareholders present and voting either in person or by proxy against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Scheme Shares held by the HRIV Disinterested Shareholders;
- (iii) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the HRIV Shareholders present and voting in person or by proxy at an extraordinary general meeting of HRIV to approve and give effect to:
 - (a) the allotment and issuance of one HRIV Share to the Company (or, as the Company may direct, a wholly-owned subsidiary of the Company) for cash at par;
 - (b) the reduction of the issued share capital of HRIV by cancelling and extinguishing the Scheme Shares;
 - (c) the increase of the issued share capital of HRIV to the amount prior to the cancellation of the Scheme Shares by issuing to the Company or its wholly-owned subsidiary such number of new HRIV Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme minus one; and
 - (d) the withdrawal of listing of the HRIV Shares on the Stock Exchange upon the Scheme becoming effective;
- (iv) the Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of HRIV, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;
- (v) all necessary Approvals in connection with the Proposal and the Scheme having been obtained from, given by or made with or by (as the case may be) the relevant Authorities in the PRC, Bermuda, the Cayman Islands, Hong Kong and any other relevant jurisdictions (including the no-objection clearance from the Ministry of Finance of the PRC Government); and
- (vi) the Company having obtained approval of the Independent Shareholders for the Proposal and the Scheme (including, without limitation, the grant of the specific mandate for the allotment and issuance of Shares to the Scheme Shareholders pursuant to the Scheme) in compliance with the Listing Rules.

LETTER FROM OPTIMA

Please refer to the letter from the Board contained in the Circular for further details of the Conditions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the principal factors and reasons set out below.

1. Information of the Group

1.1 Principal businesses

The Group is principally engaged in asset management and direct investment (the “**Asset Management and Direct Investment Segment**”), securities business (the “**Securities Segment**”) and corporate finance (the “**Corporate Finance Segment**”). The aforesaid businesses are carried out through (i) Huarong International Securities Limited, being a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO; (ii) Huarong International Capital Limited, being a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO; and (iii) Huarong International Asset Management Limited, being a corporation licensed to conduct Type 9 (asset management) regulated activity under the SFO. Its direct investments involve principally stocks, bonds, funds, derivative instruments and other financial products. The Securities Segment involves provision of brokerage services, margin financing and stocks, futures and options trading services, while the Corporate Finance Segment involves the provision of comprehensive securities issuance and underwriting and financial advisory services to institutional clients.

1.2 Historical financial information

(a) Financial performance

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2017 (“**FY2017**”), 2018 (“**FY2018**”) and 2019 (“**FY2019**”), and each of the six months ended 30 June 2019 (“**1H2019**”) and 30 June 2020 (“**1H2020**”) as extracted from the Company’s FY2017, FY2018 and FY2019 annual reports and interim results announcement for 1H2020 respectively. The

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unaudited consolidated financial statements of the Group for 1H2020 contained in the interim results announcement have been reviewed by the Company's auditors in accordance with the Hong Kong Standard on Review Engagements 2410.

	FY2017	FY2018	FY2019	1H2019	1H2020
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue					
Commission and fee					
income	472.9	201.4	121.0	74.3	15.9
Interest income	1,340.7	1,715.0	1,428.4	767.6	314.8
Investment income	209.4	355.2	117.8	112.3	31.2
	<u>2,023.0</u>	<u>2,271.6</u>	<u>1,667.2</u>	<u>954.2</u>	<u>361.9</u>
Net gains (losses) on					
financial assets at fair					
value through profit or					
loss	756.5	(1,347.3)	(9.8)	378.3	(276.1)
Administrative and other					
operating expenses	(288.9)	(225.9)	(152.3)	(75.6)	(75.1)
Impairment losses, net of					
reversal	(170.7)	(522.1)	(1,642.0)	(685.7)	(93.2)
Finance costs	(1,158.2)	(1,683.9)	(1,286.8)	(696.3)	(317.6)
Others	102.3	(51.0)	(41.5)	(28.0)	(66.5)
	<u>1,264.0</u>	<u>(1,558.6)</u>	<u>(1,465.2)</u>	<u>(153.1)</u>	<u>(466.6)</u>
Profit (Loss) before tax					
Income tax (expense)					
credit	(258.4)	76.5	(14.7)	(77.6)	(8.4)
	<u>1,005.6</u>	<u>(1,482.1)</u>	<u>(1,479.9)</u>	<u>(230.7)</u>	<u>(475.0)</u>
Profit (Loss) for the					
year/period	<u>1,005.6</u>	<u>(1,482.1)</u>	<u>(1,479.9)</u>	<u>(230.7)</u>	<u>(475.0)</u>
Profit (Loss) for the					
 year/period					
 attributable to:					
– the Shareholders	964.1	(1,548.2)	(1,545.9)	(263.8)	(508.0)
– holder of perpetual					
capital securities	41.5	66.1	66.0	33.1	33.0
	<u>1,005.6</u>	<u>(1,482.1)</u>	<u>(1,479.9)</u>	<u>(230.7)</u>	<u>(475.0)</u>

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The Group's revenue comprises (i) commission and fee income which are derived principally from the provision of securities brokerage and corporate finance advisory services; (ii) interest income from the provision of margin financing and other loans to customers and investment in bonds and other financial products; and (iii) investment income which represents principally dividend income from direct investments.

The following table sets out the breakdown of revenue by business segments of the Group for each of FY2017, FY2018, FY2019, 1H2019 and 1H2020:

	FY2017	FY2018	FY2019	1H2019	1H2020
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Asset Management and Direct Investment Segment	1,307.4	1,754.6	1,242.6	721.1	246.3
Securities Segment	401.2	486.1	415.7	219.8	115.4
Corporate Finance Segment	314.4	30.9	8.9	13.3	0.2
Total	2,023.0	2,271.6	1,667.2	954.2	361.9

FY2018 vs FY2017

The Group recorded revenue of approximately HK\$2,271.6 million for FY2018, representing an increase of approximately HK\$248.6 million or approximately 12.3% from that of approximately HK\$2,023.0 million for FY2017. The increase was mainly attributable to the growth in income derived from the Asset Management and Direct Investment Segment from approximately HK\$1,307.4 million for FY2017 to approximately HK\$1,754.6 million for FY2018 due to the receipt of full-year interest income in FY2018 from those financial assets acquired during FY2017. During FY2018, the overall investment sentiment globally as well as in Hong Kong was affected by, among other things, US-Sino trade war and political uncertainty related to Brexit, and the value of the Group's investments dropped along with the market downturn. As a result, despite the increase in revenue, the Group recorded a loss attributable to the Shareholders of approximately HK\$1,548.2 million for FY2018, as opposed to a profit attributable to the Shareholders of approximately HK\$964.1 million for FY2017, which was mainly due to (i) the net losses on financial assets at fair value through profit or loss of approximately HK\$1,347.3 million in relation to investments in convertible bonds, fixed income instruments, preferred shares and listed equity as compared to net gains on financial assets at fair value through profit or loss of approximately HK\$756.5 million for FY2017; (ii) the impairment losses (net of reversal) of approximately HK\$397.2 million in relation to margin financing; and (iii) the increase in finance costs from approximately HK\$1,158.2 million for FY2017

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to approximately HK\$1,683.9 million for FY2018 as a result of the higher balance of interest-bearing borrowings in the early months of 2018.

FY2019 vs FY2018

The Group recorded revenue of approximately HK\$1,667.2 million for FY2019, representing a decrease of approximately HK\$606.4 million or approximately 26.6% from that of approximately HK\$2,271.6 million for FY2018. The decrease was mainly due to the Group's approach to proactively divest and dispose of risk assets during the year so as to further improve its investment portfolio and business structure, resulting in a drop of income from the Asset Management and Direct Investment Segment. In addition, due to the Sino-US trade war and economic downturn and investors' concern about economic prospects, the Securities Segment was under the profound impact of stagnant market in 2019 and recorded impairment losses (net of reversal) of approximately HK\$1,642.0 million mainly made for loans and receivables and margin financing for that year. As a result, the Group recorded a loss attributable to the Shareholders of approximately HK\$1,545.9 million for FY2019, which was at a similar level as that of approximately HK\$1,548.2 million for FY2018.

1H2020 vs 1H2019

The revenue of the Group for 1H2020 decreased significantly from approximately HK\$954.2 million for 1H2019 to approximately HK\$361.9 million for 1H2020, which was mainly due to the drop in interest income and investment income as a result of the Group's cautious approach to optimise its investment portfolio. The Group recorded an increased loss attributable to the Shareholders from approximately HK\$263.8 million for 1H2019 to approximately HK\$508.0 million for 1H2020. The increase in loss was mainly attributable to the decrease in revenue and the net losses on financial assets at fair value through profit or loss of approximately HK\$276.1 million for 1H2020 as opposed to the net gains on financial assets at fair value through profit or loss of approximately HK\$378.3 million for 1H2019. Such increase in losses has been partially offset by the reduction in impairment losses (net of reversal) mainly made for loans and receivables and margin financing from approximately HK\$685.7 million for 1H2019 to HK\$93.2 million for 1H2020 and reduction in finance costs from approximately HK\$696.3 million for 1H2019 to approximately HK\$317.6 million for 1H2020.

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(b) *Financial position*

Set out below is a summary of the financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020.

	As at 31 December 2017 <i>HK\$'million</i> (Audited)	As at 31 December 2018 <i>HK\$'million</i> (Audited)	As at 31 December 2019 <i>HK\$'million</i> (Audited)	As at 30 June 2020 <i>HK\$'million</i> (Unaudited)
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss	4,896.3	1,719.1	1,375.2	1,262.5
Financial assets at fair value through other comprehensive income	–	2,716.2	2,055.6	2,045.2
Available-for-sale investments	7,611.3	–	–	–
Other loans and receivables	5,153.6	291.4	–	–
Amount due from an associate	1,532.3	318.8	314.3	302.8
Other non-current assets	78.3	180.0	163.3	137.9
TOTAL NON-CURRENT ASSETS	19,271.8	5,225.5	3,908.4	3,748.4
CURRENT ASSETS				
Advances to customers in margin financing	4,948.2	4,072.4	2,883.7	616.1
Financial assets at fair value through profit or loss	4,221.4	13,697.1	3,473.2	2,611.4
Financial assets at fair value through other comprehensive income	–	2,908.5	1,911.8	1,024.5
Available-for-sale investments	7,034.3	–	–	–
Other loans and receivables	4,149.5	5,979.8	772.0	2,997.0
Restricted bank balances, cash and cash equivalents and pledged bank deposits	6,271.5	2,798.3	3,459.2	1,983.2
Other current assets	428.1	342.2	258.2	230.9
TOTAL CURRENT ASSETS	27,053.0	29,798.3	12,758.1	9,463.1

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	As at 31 December 2017 <i>HK\$'million</i> (Audited)	As at 31 December 2018 <i>HK\$'million</i> (Audited)	As at 31 December 2019 <i>HK\$'million</i> (Audited)	As at 30 June 2020 <i>HK\$'million</i> (Unaudited)
TOTAL ASSETS	46,324.8	35,023.8	16,666.5	13,211.5
CURRENT LIABILITIES				
Accounts payable	3,758.8	2,269.8	1,355.5	919.9
Interest-bearing borrowings	15,997.2	12,456.8	6,241.1	3,180.0
Repurchase agreements	4,032.8	4,126.0	1,745.2	1,619.6
Other current liabilities	831.2	977.0	478.2	189.0
TOTAL CURRENT LIABILITIES	24,620.0	19,829.6	9,820.0	5,908.5
NON-CURRENT LIABILITIES				
Interest-bearing borrowings	17,040.7	13,021.2	5,449.8	4,907.0
Other non-current liabilities	601.3	102.6	67.6	59.2
TOTAL NON-CURRENT LIABILITIES	17,642.0	13,123.8	5,517.4	4,966.2
TOTAL LIABILITIES	42,262.0	32,953.4	15,337.4	10,874.7
	<u>4,062.8</u>	<u>2,070.4</u>	<u>1,329.1</u>	<u>2,336.8</u>
TOTAL EQUITY				
Share capital, share premium and reserves	2,853.6	862.1	121.7	(420.6)
Perpetual capital securities classified as equity investments	1,209.2	1,208.3	1,207.4	2,757.4
	<u>4,062.8</u>	<u>2,070.4</u>	<u>1,329.1</u>	<u>2,336.8</u>

The Group holds an investment portfolio of financial assets, loans in margin financing and other loans and receivables to generate interest income and investment income. In accordance with the Hong Kong Financial Reporting Standards, the financial assets are measured at fair value at the end of each reporting period, and the loans in margin financing and other loans and receivables are subject to impairment test on each balance sheet date. Due to the cautious approach adopted for its business operation in light of the then economic environment and the gradual implementation

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of the national “deleverage” policy and the substantial fair value losses in financial assets and impairment losses on loans in margin financing and other loans and receivables, the Group’s investment portfolio and other financial assets had been downsized significantly during FY2018 and FY2019.

As at 30 June 2020, total assets of the Group amounted to approximately HK\$13,211.5 million. Financial assets at fair value with aggregate amount of approximately HK\$6,943.6 million comprised principally investments in funds, fixed income instruments, preferred shares and listed equity investments, and accounted for about 52.6% of the total assets of the Group. Other loans and receivables of approximately HK\$2,997.0 million and advances to customers from margin financing business of approximately HK\$616.1 million accounted for about 22.7% and 4.7% of the total assets of the Group respectively.

The Group’s operations were mainly financed by interest-bearing borrowings from independent financial institutions and financing provided by the China Huarong Group (through CHIH, the indirect parent company of the Company and a subsidiary of China Huarong) by way of shareholder’s loan as well as subscription of perpetual securities issued by the Company. As at 30 June 2020, the total liabilities of the Group amounted to approximately HK\$10,874.7 million, comprising mainly interest-bearing borrowings of approximately HK\$8,087.0 million and repurchase agreements of financial assets of approximately HK\$1,619.6 million, and the total amount of perpetual securities issued to CHIH amounted to approximately HK\$2,757.4 million. The interest-bearing borrowings comprised bank loans of approximately HK\$2,816.0 million and loan from an intermediate holding company of approximately HK\$5,270.9 million. The increase in total equity of the Group from approximately HK\$1,329.1 million as at 31 December 2019 to approximately HK\$2,336.8 million as at 30 June 2020 was mainly attributable to the issue of a new tranche of perpetual securities to CHIH in the principal amount of US\$200 million on 30 June 2020, which was partially offset by the loss attributable to the Shareholders of approximately HK\$508.0 million for 1H2020. As at 30 June 2020, the total equity of the Group of approximately HK\$2,336.8 million comprised net liabilities attributable to the Shareholders of approximately HK\$420.6 million and equity attributable to the holders of the perpetual securities of approximately HK\$2,757.4 million. As disclosed in the Company’s annual report for the year ended 31 December 2019 and announcement dated 30 June 2020, the perpetual securities constitute direct, unconditional, unsubordinated and unsecured obligations of the Company, have no fixed redemption date and the payment of distribution can be deferred into perpetuity at the discretion of the Company. Accordingly, for accounting purpose, such securities are accounted for as equity of the Company attributable to the holders of such securities.

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2. Information of the HRIV Group

2.1 Principal businesses

The HRIV Group is principally engaged in direct investments (the “**Direct Investment Segment**”), provision of finance leasing services (the “**Finance Lease Segment**”), and provision of business consulting services and other related services including money lending (the “**Other Financial Service Segment**”). The investment portfolio of the Direct Investment Segment comprised principally equities, bonds, funds, derivatives and other financial products, while the Finance Lease Segment provides finance leasing services to a wide range of industries including logistics, automobile, aviation, solar energy and wind power generation, and liquefied natural gas. The HRIV Group also provides consulting services on macro-economy and industrial analysis, financial product design and other aspects for the above clients, the revenue of which is grouped under the Other Financial Service Segment. During 2019, the HRIV Group disposed of its subsidiaries which were engaged in foundation and substructure construction services business (the “**Discontinued Business**”). Since then, it focuses on the financial investment and services as described above.

2.2 Historical financial information

(a) Financial performance

The following is a summary of the financial results including discontinued operation of the HRIV Group for each of FY2017, FY2018, FY2019, 1H2019 and 1H2020 as extracted from HRIV’s FY2017, FY2018 and FY2019 annual reports and the interim results announcement for 1H2020 respectively. The unaudited consolidated financial statements of the HRIV Group for 1H2020 contained in the interim results announcement have been reviewed by HRIV’s auditors in accordance with the Hong Kong Standard on Review Engagements 2410.

	FY2017	FY2018	FY2019	1H2019	1H2020
	<i>HK\$’ million</i>	<i>HK\$’ million</i>	<i>HK\$’ million</i>	<i>HK\$’ million</i>	<i>HK\$’ million</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
				<i>(Note 1)</i>	
Revenue					
<i>Discontinued operation:</i>					
Foundation and substructure construction services	303.6	585.5	643.3	–	–
<i>Continuing operations:</i>					
Direct investment	229.2	607.8	363.2	183.6	73.4
Finance leasing	58.6	130.9	96.1	39.9	36.1
Other financial services	318.3	172.0	51.9	27.6	2.1
	<u>606.1</u>	<u>910.7</u>	<u>511.2</u>	<u>251.1</u>	<u>111.6</u>
Total	<u>909.7</u>	<u>1,496.2</u>	<u>1,154.5</u>	<u>251.1</u>	<u>111.6</u>

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	FY2017	FY2018	FY2019	1H2019	1H2020
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
				<i>(Note 1)</i>	
Net gains (losses) on fair value changes of financial investments and derivatives	267.1	(167.3)	(216.4)	(178.9)	83.0
Net (recognition) reversal of impairment losses	(86.0)	42.0	(939.0)	(100.6)	(39.5)
Staff costs and other operating expenses	(211.6)	(331.1)	(257.6)	(104.1)	(56.9)
Finance costs	(229.8)	(410.0)	(308.5)	(160.0)	(93.8)
Others <i>(Note 2)</i>	(255.2)	(574.6)	(368.8)	(2.0)	(6.7)
Profit (Loss) before tax	394.2	55.2	(935.8)	(294.5)	(2.3)
Income tax (expense) credit	(124.6)	17.3	8.8	(10.2)	–
Profit (Loss) for the year/period	<u>269.6</u>	<u>72.5</u>	<u>(927.0)</u>	<u>(304.7)</u>	<u>(2.3)</u>
Profit (Loss) for the year/period attributable to:					
– ordinary shareholders of HRIV	269.6	9.3	(990.2)	(336.4)	(33.6)
– holder of the perpetual bond instruments	–	63.2	63.2	31.7	31.3
	<u>269.6</u>	<u>72.5</u>	<u>(927.0)</u>	<u>(304.7)</u>	<u>(2.3)</u>

Notes:

- The results of the HRIV Group for 1H2019 have been restated in order to disclose the discontinued operation separately from continuing operations.
- Others mainly comprised the material and labour costs related to the Discontinued Business, net of the gain on disposal of the Discontinued Business.

The revenue of the HRIV Group is generated principally from (i) income from direct investment such as dividend and interest income; (ii) interest income and arrangement fees from finance leasing business and money lending business; and (iii) fee income from provision of other consultancy services in relation to its finance leasing business.

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FY2018 vs FY2017

The HRIV Group recorded revenue of approximately HK\$1,496.2 million for FY2018, representing an increase of approximately HK\$586.5 million or approximately 64.5% from that of approximately HK\$909.7 million for FY2017. The revenue was contributed as to approximately HK\$910.7 million by the direct investment, finance leasing and other financial services businesses and as to approximately HK\$585.5 million by the Discontinued Business. The increase in revenue from the financial investment and services businesses was mainly attributable to the growth in income derived from the Direct Investment Segment from approximately HK\$229.2 million for FY2017 to HK\$607.8 million for FY2018 due to a higher average balance of financial assets (being the average of the beginning balance and ending balance) in FY2018 than that of FY2017. Despite the increase in revenue, the HRIV Group recorded a drop in profit attributable to the ordinary shareholders of HRIV from approximately HK\$269.6 million for FY2017 to approximately HK\$9.3 million for FY2018. The decrease in profit was mainly attributable to (i) the net losses on fair value changes of financial investments and derivatives of approximately HK\$167.3 million for FY2018, as opposed to the net gains on fair value changes of financial investments and derivatives of approximately HK\$267.1 million for FY2017; and (ii) the increase in finance costs from approximately HK\$229.8 million for FY2017 to approximately HK\$410.0 million for FY2018, which were partially offset by the net reversal of impairment losses of HK\$42.0 million for FY2018 as opposed to recognition of impairment losses of approximately HK\$86.0 million for FY2017.

FY2019 vs FY2018

The HRIV Group recorded revenue of approximately HK\$1,154.5 million for FY2019, which were contributed as to approximately HK\$643.3 million by the Discontinued Business and as to HK\$511.2 million by the financial investment and services businesses. The revenue from financial investment and services businesses for FY2019 decreased by approximately 43.9% as compared to HK\$910.7 million for FY2018. The decline was mainly due to the significant decrease in the aggregate income contributed by the Direct Investment Segment and Other Financial Service Segment from approximately HK\$779.8 million for FY2018 to HK\$415.1 million for FY2019, resulting from extreme uncertainty and volatility in the global macro economy and capital markets due to the US-Sino trade war. Along with the drop in revenue, the HRIV Group's financial performance deteriorated and recorded a loss attributable to the ordinary shareholders of HRIV of approximately HK\$990.2 million for FY2019, as opposed to a profit attributable to the owners of HRIV of approximately HK\$9.3 million for FY2018. Such deterioration was mainly attributable to the impairment losses of approximately HK\$939.0 million for FY2019 on loans and debt instruments and finance lease receivables as compared to net reversal of impairment losses of approximately HK\$42.0 million for FY2018.

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1H2020 vs 1H2019

The HRIV Group recorded revenue of approximately HK\$111.6 million for 1H2020, representing a decrease of approximately HK\$139.5 million or approximately 55.6% from that of approximately HK\$251.1 million for 1H2019. The drop was mainly due to the decrease in income contributed by the Direct Investment Segment and Other Financial Service Segment from approximately HK\$211.2 million for 1H2019 to HK\$75.5 million for 1H2020, resulting from fluctuation in the global financial market conditions and the unprecedented coronavirus pandemic. Despite the decrease in revenue, the HRIV Group's financial performance improved and recorded a decrease in loss attributable to the ordinary shareholders of HRIV from approximately HK\$336.4 million for 1H2019 to approximately HK\$33.6 million for 1H2020. Such improvement was mainly attributable to (i) the net gains on fair value changes of financial investments and derivatives of approximately HK\$83.0 million for 1H2020 as opposed to the net losses on fair value changes of financial investments and derivatives of approximately HK\$178.9 million for 1H2019; (ii) the impairment losses of approximately HK\$39.5 million for 1H2020 as compared to that of approximately HK\$100.6 million for 1H2019 on loans and debt instruments and finance lease receivables; and (iii) reduction in staff costs and other operating expenses and finance costs.

(b) Financial position

Set out below is a summary of the financial position of the HRIV Group as at 31 December 2017, 2018 and 2019 and 30 June 2020.

	As at 31 December 2017 <i>HK\$'million</i> (Audited)	As at 31 December 2018 <i>HK\$'million</i> (Audited)	As at 31 December 2019 <i>HK\$'million</i> (Audited)	As at 30 June 2020 <i>HK\$'million</i> (Unaudited)
NON-CURRENT ASSETS				
Right-of-use assets	–	–	131.7	79.9
Financial investments and derivatives	2,172.8	1,746.8	885.2	938.0
Finance lease receivables	1,447.9	988.1	534.2	572.3
Loan and debt instruments	1,225.7	1,268.3	–	–
Other non-current assets	107.7	107.4	56.5	48.8
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS	4,954.1	4,110.6	1,607.6	1,639.0
	<hr/>	<hr/>	<hr/>	<hr/>

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	As at 31 December 2017 <i>HK\$'million</i> (Audited)	As at 31 December 2018 <i>HK\$'million</i> (Audited)	As at 31 December 2019 <i>HK\$'million</i> (Audited)	As at 30 June 2020 <i>HK\$'million</i> (Unaudited)
CURRENT ASSETS				
Financial investments and derivatives	5,496.1	2,976.0	1,839.8	1,535.4
Finance lease receivables	473.7	463.8	552.0	464.6
Loan and debt instruments	971.3	1,568.9	1,285.6	1,184.2
Pledged bank deposits and bank balances and cash	1,506.5	738.9	927.2	836.8
Other current assets	505.3	560.0	138.0	160.8
TOTAL CURRENT ASSETS	<u>8,952.9</u>	<u>6,307.6</u>	<u>4,742.6</u>	<u>4,181.8</u>
TOTAL ASSETS	<u>13,907.0</u>	<u>10,418.2</u>	<u>6,350.2</u>	<u>5,820.8</u>
CURRENT LIABILITIES				
Trade and other payables	255.4	331.7	39.1	36.5
Interest-bearing borrowings	8,102.7	2,221.4	676.2	1,332.7
Financial assets sold under repurchase agreements	–	511.8	97.1	–
Other current liabilities	149.9	303.9	160.6	147.8
TOTAL CURRENT LIABILITIES	<u>8,508.0</u>	<u>3,368.8</u>	<u>973.0</u>	<u>1,517.0</u>
NON-CURRENT LIABILITIES				
Interest-bearing borrowings	2,944.0	4,784.5	3,903.9	2,893.0
Other non-current liabilities	92.0	49.1	190.9	125.8
TOTAL NON-CURRENT LIABILITIES	<u>3,036.0</u>	<u>4,833.6</u>	<u>4,094.8</u>	<u>3,018.8</u>
TOTAL LIABILITIES	<u>11,544.0</u>	<u>8,202.4</u>	<u>5,067.8</u>	<u>4,535.8</u>
	<u>2,363.0</u>	<u>2,215.8</u>	<u>1,282.4</u>	<u>1,285.0</u>

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	As at 31 December 2017 <i>HK\$'million</i> (Audited)	As at 31 December 2018 <i>HK\$'million</i> (Audited)	As at 31 December 2019 <i>HK\$'million</i> (Audited)	As at 30 June 2020 <i>HK\$'million</i> (Unaudited)
TOTAL EQUITY				
Share capital and reserves	1,096.7	886.2	(110.4)	(139.1)
Perpetual capital instrument	1,266.3	1,329.6	1,392.8	1,424.1
	<u>2,363.0</u>	<u>2,215.8</u>	<u>1,282.4</u>	<u>1,285.0</u>

The HRIV Group holds an investment portfolio of financial investments and derivatives, loan and debt instruments, and finance lease receivables to generate interest income and investment income. In accordance with the Hong Kong Financial Reporting Standards, the financial investments and derivatives are measured at fair value at the end of each reporting period, and the finance lease receivables and loan and debt instruments are subject to impairment test on each balance sheet date. Similar to the Group, the financial assets of the HRIV Group had been downsized significantly during FY2018 and FY2019 due to the fair value losses in financial investments and derivatives and substantial impairment losses on finance lease receivables and loan and debt instruments.

As at 30 June 2020, total assets of the HRIV Group amounted to approximately HK\$5,820.8 million. Financial investments and derivatives with aggregate amount of approximately HK\$2,473.4 million comprised principally stock, bonds, funds, derivatives and other financial products, and accounted for approximately 42.5% of the HRIV Group's total assets. Loan and debt instruments of approximately HK\$1,184.2 million, finance lease receivables of approximately HK\$1,036.9 million and pledged bank deposits and bank balances and cash of approximately HK\$836.8 million accounted for approximately 20.3%, 17.8% and 14.4% of the total assets of the HRIV Group respectively.

The HRIV Group's operations were mainly financed by interest-bearing borrowings from independent financial institutions and financing provided by the China Huarong Group by way of shareholder's loan and subscription of perpetual instrument issued by HRIV. As at 30 June 2020, the total liabilities of the HRIV Group amounted to approximately HK\$4,535.8 million, of which interest-bearing borrowings amounted to approximately HK\$4,225.7 million, and the total amount of perpetual instrument issued to the China Huarong Group amounted to approximately HK\$1,424.1 million. The interest-bearing borrowings mainly comprised bank loans of approximately HK\$1,372.7 million and shareholder's loan of approximately HK\$2,526.5 million. As at 30 June 2020, the total equity of the HRIV Group of approximately HK\$1,285.0 million comprised net liabilities attributable to the

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ordinary shareholders of approximately HK\$139.1 million and equity attributable to the holders of perpetual capital instrument of approximately HK\$1,424.1 million. Similar to those of the Company, the perpetual capital instrument issued by HRIV constitutes direct, unconditional, unsubordinated and unsecured obligation of HRIV, has no fixed redemption date and the payment of distribution can be deferred indefinitely at the discretion of HRIV. Accordingly, for accounting purpose, the perpetual capital instrument is accounted for as equity of HRIV attributable to the holders of such instrument.

3. Prospects of the Group and the HRIV Group

Economic recovery in 2020 is facing enormous challenges resulted from negative factors such as intensified trade and investment war, Brexit, presidential election of the United States, geopolitical issues such as the turmoil in the Middle East, complicated and ever-changing trade issues between the United States and China, as well as political risks and trade disputes. The global outbreak of COVID-19 has accelerated global economic downturn and the resultant panic chain effect has led to a slump in global stock markets, causing tremendous shock to financial markets. Despite central banks are taking proactive initiatives to minimise the possibility of a global recession in 2020 and the sizable consumer market in China may serve as a foundation for economic recovery, we are of the view that the businesses of the Group are inevitably negatively affected and exposed to potential impairment in value of its investments and receivables from customers at least in the near term.

As regards the HRIV Group, its principal business of direct investment is similar to that of the Group, though its portfolio is smaller in size and the investment strategy and objective may not be identical to the Group. Accordingly, we are of the view that the businesses of the HRIV Group are to a large extent subject to similar exposure to risk of market volatility and downturn as the Group as described above.

4. Reasons for and benefits of the Proposal

As set out in the section headed “Reasons for and benefits of the Proposal” in the letter from the Board contained in the Circular, the Board considers that the Proposal will allow the Company to achieve economies of scale and cost savings which are necessary for sustainable and profitable growth in its licensed businesses. The combination of the Company and HRIV will create a unified platform, thereby enabling more efficient and focused use of the network and resources of the Huarong brand under the strong support of China Huarong. HRIV’s existing business network also provides the Company with rich client resources, which could effectively strengthen the Company’s businesses. By joining forces with HRIV, the Company will be well positioned to implement its development strategy of “investment + investment banking”.

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We have discussed with the respective management of the Company and HRIV, and understand that the Proposal is expected to bring about synergies and benefits to the Group in the following key aspects:

Enhanced scale and greater market presence

Following the implementation of the Proposal and the Scheme, the Company and HRIV will consolidate their investment portfolio and other businesses into one unified platform which will become an industry player of scale with the diversity required to increase their overall market share in a sustainable and economically beneficial fashion. Via combining the respective brands, services, markets and customer bases of both the Company and HRIV, the post-combination business will have greater flexibility in focusing on the provision of services at a higher quality going forward, thereby generating more revenue for the enlarged group. Such a strategy will enhance the Company's overall competitiveness in the market, and will advance the respective businesses of the Company and HRIV to a much greater extent than what they would have achieved separately by themselves.

We have discussed with the management of the Company and understand that the size of investments of the Group had in the past been restricted by, among other things, the availability of capital resources, its existing scale of operations and market capitalisation of the Shares. For example, there may be cases where the size of a potential investment exceeds certain thresholds which would trigger compliance obligations on the part of the Company, as a result of which compliance costs may be incurred. The need to make the potential investment subject to fulfillment by the Company of certain compliance requirements such as obtaining shareholders' approval in accordance with the Listing Rules and the extra time needed to obtain such approval may be considered as completion risk and render the Company less competitive as compared to other industry players. Following the implementation of the Proposal and as referred to in the paragraph headed "Financial effects of the Proposal and the Scheme" below, the size of the Company in terms of total assets, net assets, share capital base and possibly market capitalisation will be substantially enlarged, which would provide more flexibility to the Company in its pursuance of larger potential investments.

Achieving economies of scale

As a result of the Proposal, the Company's market capitalisation is expected to increase and the capital and shareholders base of the Company will be broadened as a result of the issuance of new Shares. Accordingly, the Company's position as a major listed company on the Stock Exchange is expected to be further enhanced. The increased equity size and free float of the Shares could also potentially improve the liquidity in the Shares, increase the attractiveness of the Company to institutional investors and increase its access to the capital markets. In return, the Company would be able to utilise the combined liquidity resources of the Enlarged Group more effectively for the benefit of all shareholders of the Company.

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As discussed in the paragraph headed “Information of the Group” above, the businesses of the Group have been principally financed by interest-bearing borrowings and shareholder’s loan from China Huarong. We have discussed with the management of the Company and understand that in addition to the increased access to the capital markets as explained above, the Group’s access to debt market and ability to negotiate better terms for its interest-bearing borrowings may also be improved following the implementation of the Proposal, as the asset and capital base are both enlarged which may enable the Group to obtain more favourable terms from its creditors.

Combination of complementary businesses

By combining the Company and HRIV into a unified platform, the Company and HRIV will be able to place more focus on their respective specialties which are unique to their own respective business plans and management teams.

We have discussed with the management of the Company and understand that it has been the Company’s strategy to adopt the “investment + investment banking” business model. Such business model requires different skill sets and careful allocation of resources. In the past, the Group was more focused on licensed investment banking business and had taken steps to optimise its direct investment portfolio, while HRIV on the other hand was focused on direct investment and finance leasing businesses. Following the implementation of the Proposal, the Company will continue to focus on and develop its licensed businesses as the only fully-licensed Hong Kong-listed entity within the China Huarong Group under the “investment + investment banking” business model. Based on our discussions with the management of the Company, we understand that it is the intention of the Company to expand its investment banking operations to cover full-fledged services covering debt capital market, equity capital market, bond sales and other services such as sponsors for initial public offerings, while its existing direct investment business will be combined with those of HRIV as one single unit of the Group. By joining force with HRIV and retaining and differentiating the Group and the HRIV Group in their unique areas of specialty, the Directors are of the view, with which we concur, that such a strategy will result in greater efficiencies and a more optimal business structure, which will in turn accelerate the realisation of economies of scale.

As discussed in the paragraphs headed “Information of the HRIV Group” above, the HRIV Group is currently also engaged in finance leasing business. We have discussed with the management of the Company and understand that the entry barrier for finance leasing business is high in terms of capital requirement and licensing and regulatory requirements, and the Group considers there are commercial merits to continue with the finance leasing business following the implementation of the Proposal by utilising the existing licences obtained by and the infrastructure already established within the HRIV Group.

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Eliminating potential competition

As mentioned above, apart from the licensed investment banking businesses undertaken by the Group and the finance lease business undertaken by the HRIV Group, both the Group and the HRIV Group are engaged in direct investment. There may be potential competition between the Group and the HRIV Group in sourcing targets for their respective direct investment businesses. Following the implementation of the Proposal, the Company and HRIV will be operated under one single platform, and the potential competition for prospective investments will be eliminated, which may enable the Group to obtain more attractive investment terms in potential investees and enhance return and yield on investments.

Potential to drive additional revenue across platforms

Following implementation of the Proposal, there may be increased business opportunities through cross-selling of specialties of the Company and HRIV between the existing customers of the Company and HRIV to yield additional revenues, with customers being provided with a more complete range of service choices. HRIV has made equity investments in a number of companies and these investee companies may require financial advisory services from time to time. For example, HRIV's investee companies which require investment banking services, such as advices on initial public offerings, mergers and acquisitions or fund raising exercises, may become potential clients of and create business opportunities for the Company's investment banking business. The competitiveness of the Company and HRIV in attracting new customers will also be improved with the enhanced service portfolio. In addition, the Company and HRIV will be able to access, tap into and benefit from each other's marketing channels and relationships developed with customers and other external parties. Through better co-ordination of their respective marketing and business development strategies, the Company and HRIV are expected to optimise efficiency and profitability across their various networks. The expanded existing customer base of the Enlarged Group will also directly and immediately increase the scale of the combined customer services platform and achieve optimisation through the complementary advantages of their respective existing systems.

We have discussed with the management of the Company and understand that the Group usually sources its clients by marketing efforts of its sales and marketing team, by referrals from peers or other professionals in the market, and through cross selling among members of the China Huarong Group, and there is at present minimal overlapping of clients of the Group and the HRIV Group. The Company is of the view, with which we concur, that following the implementation of the Proposal which combines the Group and the HRIV Group as one unified platform, the Enlarged Group will be able to tap into and benefit from each other's marketing channels and relationships developed with customers and other external parties to drive revenue growth.

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Centralised capital and risk management

The combined company will benefit from increased capital management efficiency due to the pooling of capital resources and better allocation of capital amongst its various business lines, as well as a centralised risk management. In particular, the Company's management will be able to take advantage of the broader platform which will afford them greater flexibility to deploy capital in a manner which maximises the return on capital for the Company.

Better leverage on the support of China Huarong

The integration of the Company and HRIV into a parent and wholly-owned subsidiary relationship as well as the withdrawal of listing of the HRIV Shares on the Stock Exchange would place the Company and HRIV in a better position to exploit the potential business opportunities and to facilitate cooperation between the Company and HRIV that are currently restricted by or subject to the non-competition undertakings among members of the China Huarong Group.

Following implementation of the Proposal and the Scheme, the Group and the HRIV Group will be combined into a unified platform which will be able to better leverage on the strong support from China Huarong in terms of brand strength, industry experience and service network, with China Huarong being one of the four state-owned asset management companies in the PRC and being ranked 83rd in the 2019 list of top 500 Chinese companies by Fortune. The integration of the Company and HRIV into one single platform is most likely to result in increased focus and support by their joint parent China Huarong, whereas previously China Huarong has had to direct its focus, policies and resources on the growth of two separate companies with similar business plans. The simplification of the group structure would also create greater flexibility to manage the Company's and HRIV's businesses and increase efficiency in decision-making and decision implementation. With China Huarong being able to plan and implement business development strategies and measures in a unified manner, internal friction and waste of resources can be minimised, and hence efficiency, brand influence and market competitiveness can be greatly enhanced.

The Group and the HRIV Group had both been enjoying support from its holding company, China Huarong, in its operations. For example, both the Company and HRIV had received support from China Huarong through the issue of perpetual securities to and shareholder's loans provided by China Huarong. On 30 June 2020, the Company had issued further perpetual securities to CHIH (a subsidiary of China Huarong) in the amount of US\$200 million to replace its amount due to China Huarong, as a result of which the total equity of the Company has been enhanced. Following implementation of the Proposal, the Group and the HRIV Group will combine as one single group, and will remove the potential competition of resources available from China Huarong which is in our view beneficial to the Company and its shareholders a whole.

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Potential cost savings

There will be cost savings achievable through the elimination of certain overlapped corporate functions, particularly in the areas of the rationalisation of existing office space and other corporate overheads. Cost savings are also expected as a result of the centralisation of key operational functions of both companies, such as investment evaluation and monitoring, information technology systems, back office administration and customer service functions. This initiative will help facilitate the centralisation of key operational functions and management of both companies.

We note that for FY2019, the total administrative and operating expenses of the Group and the HRIV Group amounted to approximately HK\$154.2 million and HK\$257.6 million respectively, of which staff cost accounted for approximately 32.1% and 21.6% of the total administrative and operating expenses of the Group and the HRIV Group respectively. We have discussed with the management of the Company and understand that the detailed rationalisation plan is yet to be drawn up and thus the actual cost savings cannot be quantified at this stage. In addition, the listing of HRIV Shares requires HRIV to bear administrative, compliance and other listing-related costs and expenses. Following the privatisation of HRIV, these costs and expenses would not be required, and the funds saved could be used for other purposes such as business expansions. We believe the aforesaid potential cost savings will enhance the yield and return of the Enlarged Group.

As discussed in the paragraphs headed “Information of the Group”, “Information of the HRIV Group” and “Prospects of the Group and the HRIV Group” above, the businesses of the Group and the HRIV Group had been adversely affected by the unfavourable market conditions in recent years and the outlook remains to be challenging. Against this background and amid the difficult market environment, it is the Group’s strategy to emphasis on quality improvement and efficiency enhancement, adhering to the “investment + investment banking” business model and putting greater marketing and expansion efforts in the market and among customers to enhance market opportunities and broaden its customer base. As disclosed in the annual report for FY2019, the Group will seek business opportunities arising from the operation of overseas distressed assets and reorganisation of non-performing enterprises, while giving full play to the advantages of its financial licensed business and synergic business as well as conducting asset management, direct investment, securities and corporate finance businesses in a sound and cautious approach. To this end, the Board is of the view that it would be more cost efficient and efficient to implement the aforesaid business strategy via mergers and acquisitions, and that the continuous support from China Huarong, the controlling shareholder, is imperative. As members of the China Huarong Group, both the Company and HRIV share the same heritage and have been managed in a similar sound and prudent fashion over the years. This cultural and management fit will facilitate the swift and efficient combination of the two businesses and related realisation of synergies as described above. We concur with the Directors’ view in this regard.

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5. The Company's intention regarding the HRIV Group

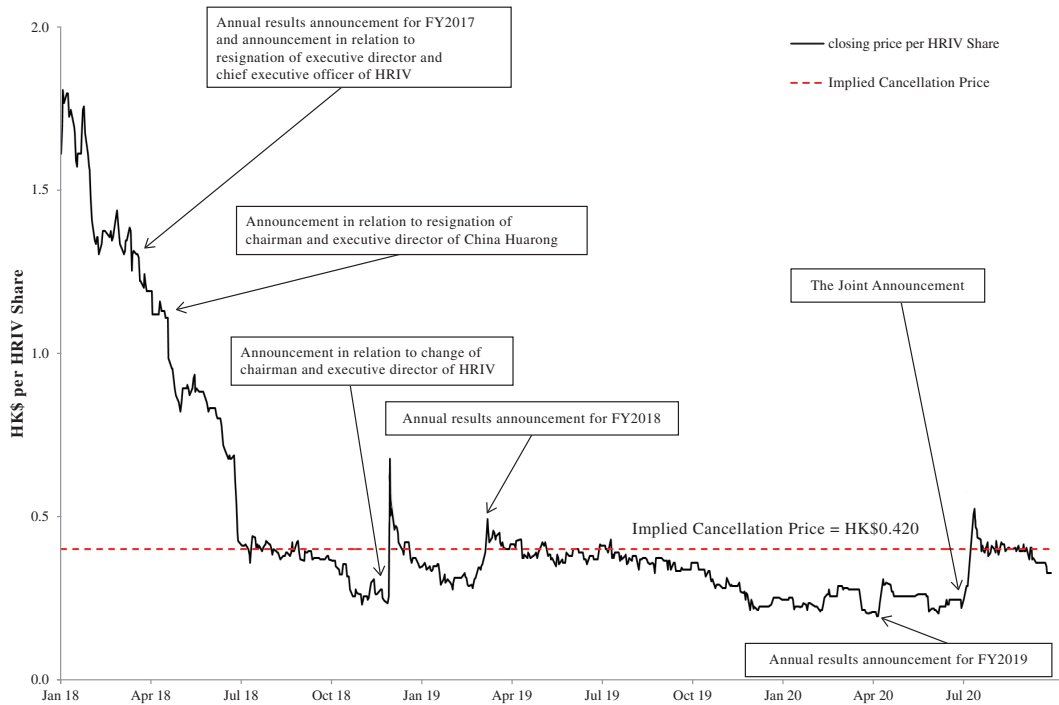
Save as mentioned under the section headed "Reasons for and benefits of the Proposal" above, upon successful implementation of the Scheme and the Proposal, (i) the Company intends to continue the operation of the existing business of the HRIV Group without making any major changes; (ii) the Company has no intention to discontinue the employment of the employees of the HRIV Group; and (iii) the Company does not plan to redeploy any of the fixed assets of the HRIV Group. However, the Company reserves the right to make any changes that it deems necessary or appropriate to the HRIV Group's business and operations, to explore opportunities arising from time to time for acquisitions, disposals and other structuring possibilities, and that the Company will continue to explore such opportunities as they arise from time to time, subject to compliance with any relevant rules and regulations.

6. Analysis of historical price performance of the HRIV Shares and the Shares

6.1 Historical price performance of the HRIV Shares

The chart below illustrates the movement of the closing prices of the HRIV Shares as quoted on the Stock Exchange for the period from 1 January 2018 up to and including the Latest Practicable Date (the "**Review Period**"). We consider the Review Period which covers more than two full financial years of HRIV is a reasonable time frame for a review of the share price performance of the HRIV Shares against its financial performance and eliminates the short term effect of volatility in the stock market on the HRIV Shares and is appropriate for the purpose of our assessment of the Proposal and the Scheme. We have also plotted the implied cancellation price for each Scheme Share under the Scheme of approximately HK\$0.420 (the "**Implied Cancellation Price**"), which is calculated based on the closing price of the Shares of HK\$0.149 on the Stock Exchange as at the Last Trading Day and the Exchange Ratio of 2.82 Shares for each Scheme Share, in the chart below for comparison with the historical price of the HRIV Shares.

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Source: Bloomberg

As illustrated in the table above, the closing price of the HRIV Share showed a generally decreasing trend and closed in the range between HK\$0.22 and HK\$1.79 per HRIV Share during the Review Period.

The HRIV Share closed at HK\$1.6 on 2 January 2018. It reached its peak during the Review Period at HK\$1.79 on 4 January 2018 and gradually went down to HK\$1.37 on 13 March 2018. The price continued to fall after the release of the annual results for FY2017 and the resignation of executive director and chief executive officer of HRIV after the Stock Exchange trading hours on 13 March 2018. The closing price of the HRIV Shares was HK\$1.11 before HRIV made an announcement on 19 April 2018 about the resignation of the chairman and executive director of its holding company (i.e. China Huarong). Subsequent to the announcement, the closing price of the HRIV Shares slid to HK\$0.99 and continued to fall to a temporary low of HK\$0.255 on 31 October 2018. Following the announcement of change of chairman and executive director of HRIV on 27 November 2018, the closing price of the HRIV Shares quickly rebounded to HK\$0.69 on the next trading day, but gradually dropped to HK\$0.3 on 30 January 2019. Although the closing price of the HRIV Shares rose to HK\$0.51 on 6 March 2019, it then experienced a long decreasing trend until it reached its trough during the Review Period at HK\$0.22 on 31 March 2020 and 1 April 2020. Shortly after the release of the annual results announcement of HRIV for FY2019 on 31 March 2020, the closing price of the HRIV Shares had climbed to HK\$0.33 on 6 April 2020. The HRIV Shares closed at HK\$0.31 on 30 June 2020, being the Last Trading Day.

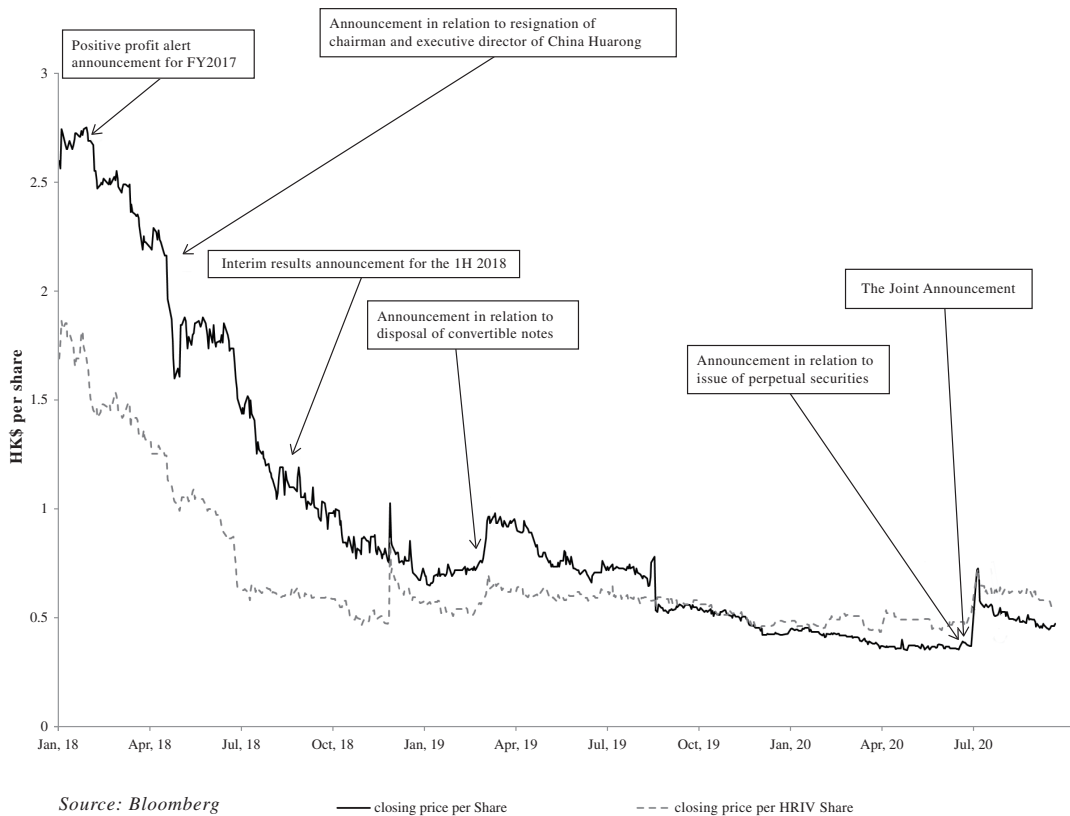
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Following the release of the Announcement in relation to the Proposal and the Scheme before the Stock Exchange trading hours on 6 July 2020, the closing price of the HRIV Shares surged to HK\$0.52 on the same day and gradually fell to HK\$0.35 on the Latest Practicable Date.

As shown in the chart above, the Implied Cancellation Price is higher than the closing prices of the HRIV Shares for a majority period of time since mid-July 2018 up to the Last Trading Day.

6.2 Historical price performance of the Shares

The chart below illustrates the movement of the closing prices of the Shares and the HRIV Shares as quoted on the Stock Exchange during the Review Period.



As illustrated in the chart above, the Share price also followed a generally decreasing trend and closed in the range between HK\$0.13 and HK\$2.77 during the Review Period.

The Shares closed at HK\$2.6 on 2 January 2018 and reached its peak during the Review Period at HK\$2.77 on 29 January 2018. Despite the Company issued a positive profit alert announcement in respect of the annual results for FY2017 on 30 January 2018, the market had not responded positively and Share price had experienced a long decreasing trend since then. The closing price of the Shares went down to HK\$2.12 before the Company made an announcement on 19 April 2018 about the resignation of the chairman

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and executive director of its holding company (i.e. China Huarong), following which the closing price of the Shares slid to HK\$1.9 on 20 April 2018 and had continued to fall. After the issue of the interim results announcement for the six months ended 30 June 2018 which disclosed a significant loss recorded by the Company, the Shares closed at HK\$0.9 on 31 August 2018. Subsequently, the Share price continued to fall and reached a temporary trough of HK\$0.455 on 7 January 2019. Although the closing price of the Shares rebounded to HK\$0.82 on 13 March 2019 following the announcement of disposal of convertible notes on 3 March 2019, it had gradually decreased after the release of the Company's annual results for FY2018 on 28 March 2019. The Shares closed at HK\$0.6 on 19 August 2019 and dropped abruptly to HK\$0.33 on 20 August 2019, which the Board had announced that it was not aware of the reasons for such unusual price movement. Since then, the closing price of the Shares gradually went down and closed at HK\$0.149 on 30 June 2020, being the Last Trading Day.

Following the release of an announcement in relation to the issue of perpetual securities to CHIH on 30 June 2020 and the Announcement in relation to the Proposal and the Scheme on 6 July 2020, the Share price surged and closed at HK\$0.53 on the same day. Subsequently, the closing price of the Share gradually fell to HK\$0.26 on the Latest Practicable Date.

In summary, the prices of both the Shares and the HRIV Shares followed a similar downward trend and closed at prices at proximity to their respective lowest closing prices during the Review Period on the Last Trading Day. We are of the view that the Exchange Ratio which is determined based on the respective prevailing market prices of the Shares and the HRIV Shares are fair and reasonable.

6.3 Comparison of the Implied Cancellation Price with historical share price of HRIV Share and equity attributable to the ordinary shareholders of HRIV

The Implied Cancellation Price for each Scheme Share under the Scheme of approximately HK\$0.420 represents:

- (i) a premium of approximately 35.5% over the closing price of HK\$0.310 per HRIV Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 52.2% over the average closing price of approximately HK\$0.276 per HRIV Share based on the closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 60.9% over the average closing price of approximately HK\$0.261 per HRIV Share based on the closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

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- (iv) a premium of approximately 53.8% over the average closing price of approximately HK\$0.273 per HRIV Share based on the closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 51.6% over the average closing price of approximately HK\$0.277 per HRIV Share based on the closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- (vi) a premium of 20.0% over the closing price of HK\$0.350 per HRIV Share as quoted on the Stock Exchange on the Latest Practicable Date.

In summary, the Implied Cancellation Price represents premia in the range of approximately 35.5% to 60.9% over the closing prices of the HRIV Shares for different periods before the Last Trading Day.

As disclosed in the paragraph headed “Information of the HRIV Group” above, the HRIV Group recorded net liabilities attributable to the ordinary shareholders of approximately HK\$139.1 million as at 30 June 2020, equivalent to HK\$0.08 per HRIV Share. Accordingly, the Implied Cancellation Price represent a premium over the negative equity attributable to ordinary shareholders of HRIV. However, we are of the view that the Implied Cancellation Price is only derived from the closing price of the Shares on the Last Trading Day based on the Exchange Ratio for analysis purpose and does not represent the actual consideration payable by the Company under the Proposal. Moreover, since the equity attributable to the ordinary shareholders of the Company as at 30 June 2020 was also in a negative amount of approximately HK\$420.6 million (equivalent to HK\$0.12 per Share), the Exchange Ratio translates to the issue of 2.82 new Shares with net liabilities attributable to the Shareholders in the sum of HK\$0.34 in exchange for one Scheme Share with net liabilities attributable to the ordinary shareholders of HRIV of HK\$0.08. From this perspective, there is no premium paid by the Company for the Scheme Shares.

Based on the above, we consider the premia represented by the Implied Cancellation Price over the share prices of HRIV Shares are reasonable, as discussed in more detail in the paragraph headed “Privatisation precedent” below, and necessary to provide sufficient incentive to attract the acceptance of the Proposal by the Scheme Shareholders.

7. Privatisation precedents

For the purpose of assessing the fairness and reasonableness of the Exchange Ratio and the Implied Cancellation Price, we have also identified privatisation proposals for other companies listed on the Main Board of the Stock Exchange which were announced during the Review Period (i.e. from 1 January 2018 and up to the Latest Practicable Date) and have either been successfully completed or obtained the requisite shareholders’ approvals as at the Latest Practicable Date (the “**Privatisation Precedents**”), and compared the premia represented by the

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Implied Cancellation Price over the share price of HRIV under the Proposal to those represented by the cancellation/offer price under the Privatisation Precedents. We consider the Review Period which covers a period of more than two years an appropriate period of time to obtain sufficient sample size for the purpose of our analysis on the premia paid in successful privatisation precedent cases in recent years. As the Proposal involves a share exchange offer, we have sought to identify those Privatisation Precedents which were solely settled by issue of new shares. However, we are only able to identify one precedent case which involved share offer with cash alternative and two other cases which involved a combined offer of cash and shares during the Review Period. Having considered that the shares to be received by the shareholders under the Privatisation Precedents involving share offer are listed securities which are readily realisable in the secondary market for cash, we are of the view that the Privatisation Precedents involving cash offers are also comparable to those involving share offers, including the Proposal, and have expanded our coverage to all Privatisation Precedents which involved cash offer, share offer or a combination of both. The Privatisation Precedents set out below represent an exhaustive list of privatisation proposals identified from the Stock Exchange's official website based on the above criteria.

The table below summarises (i) the premia represented by the cancellation/offer price of the Privatisation Precedents over the respective closing price of the subject company on the last trading day before the announcement of the relevant terms of the privatisation proposals; and (ii) the premia represented by the cancellation/offer price of the Privatisation Precedents as compared to the average close share price of the subject company for the 10-day, 30-day, 90-day and 180-day periods preceding the announcement of the relevant privatisation proposals.

Date of announcement	Company name and stock code	Form of consideration	Premia of cancellation/offer price over (Note 1 and 2)				
			average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day	average closing price per share for the last 180 trading days up to and including the last trading day	
			closing price per share on the last trading day	closing price per share on the last trading day	closing price per share on the last trading day	closing price per share on the last trading day	closing price per share on the last trading day
			%	%	%	%	%
29-Jul-20	Xinghua Port Holdings Ltd. (stock code: 1990)	Cash	29.9	27.9	58.4	127.6	144.1
21-Jun-20	China Baofeng (International) Limited (stock code: 3966)	Cash	27.5	61.5	52.0	39.0	30.7
17-Jun-20	Golden Meditech Holdings Limited (stock code: 0801)	Cash	41.9	54.4	60.0	39.7	22.2
12-Jun-20	Jinmao (China) Hotel Investments and Management Limited (stock code: 6139)	Cash	30.4	72.7	82.5	64.4	37.9
01-Jun-20	Huadian Fuxin Energy Corporation (stock code: 0816)	Cash	65.6	85.9	87.9	85.3	75.8

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Date of announcement	Company name and stock code	Form of consideration	Premia of cancellation/offer price over (Note 1 and 2)				
			average closing price per share for the last 10 trading days closing price per share on the last trading day %	average closing price per share for the last 30 trading days up to and including the last trading day %	average closing price per share for the last 90 trading days up to and including the last trading day %	average closing price per share for the last 180 trading days up to and including the last trading day %	
4-May-20	Easy One Financial Group Limited (stock code: 0221) (Note 3)	Share exchange with cash element	44.4	94.5	90.1	103.1	107.6
20-Apr-20	Allied Properties (H.K.) Limited (stock code: 0056)	Cash	34.3	40.2	39.1	29.7	23.1
3-Apr-20	Elec & Eltek International Company Limited (stock code: 1151 & E16.SI)	Cash	70.5	46.8	41.5	45.0	54.4
20-Mar-20	Li & Fung Limited (stock code: 0494)	Cash	150.0	133.9	95.2	62.1	43.8
27-Feb-20	Wheelock and Company Limited (stock code: 0020) (Note 4)	Share exchange with cash element	52.2	49.2	45.2	45.9	45.2
20-Jan-20	BBI Life Sciences Corporation (stock code: 1035)	Cash	16.3	31.4	42.5	47.9	56.7
12-Dec-19	Joyce Boutique Group Limited (stock code: 0647)	Cash	91.8	95.8	82.2	50.5	32.2
27-Nov-19	China Agri-Industries Holdings Limited (stock code: 0606)	Cash	34.1	40.9	53.2	72.4	70.0
1-Nov-19	Springland International Holdings Limited (stock code: 1700)	Cash	63.1	64.4	56.8	53.2	48.6
20-Oct-19	Dah Chong Hong Holdings Limited (stock code: 1828)	Cash	37.6	42.3	54.8	54.2	41.2
3-Oct-19	Huaneng Renewables Corporation Limited (stock code: 0958)	Cash	18.7	18.3	29.9	43.4	41.5
2-Oct-19	AVIC International Holdings Limited (stock code: 0161)	Cash	29.1	58.1	81.3	100.0	92.1
12-Aug-19	TPV Technology Limited (stock code: 0903)	Cash	41.4	50.8	54.5	87.4	138.8
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (stock code: 1135)	Cash	23.4	33.4	44.4	56.5	71.0

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Date of announcement	Company name and stock code	Form of consideration	Premia of cancellation/offer price over (Note 1 and 2)				
			average closing price per share for the last 10 trading days closing price per share on the last trading day %	average closing price per share for the last 30 trading days up to and including the last trading day %	average closing price per share for the last 90 trading days up to and including the last trading day %	average closing price per share for the last 180 trading days up to and including the last trading day %	
18-Jun-19	C.P. Lotus Corporation (stock code: 0121)	Cash	10.0	12.0	29.4	26.5	21.9
14-Jun-19	China Automation Group Limited (stock code: 0569)	Cash	24.0	36.9	47.8	46.6	42.5
4-Apr-19	China Hengshi Foundation Company Limited (stock code: 1197)	Cash	10.6	16.8	17.4	24.4	27.6
28-Mar-19	China Power Clean Energy Development Company Limited (stock code: 0735) (Note 5)	Share exchange with cash alternative	41.9	60.8	78.1	101.9	88.6
5-Dec-18	Hopewell Holdings Limited (stock code: 0054)	Cash	46.7	51.6	55.5	49.6	45.1
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (stock code: 3355)	Cash	66.7	97.4	99.3	90.2	84.3
27-Sep-18	Sinotrans Shipping Limited (stock code: 0368)	Cash	50.0	54.6	42.9	32.4	28.0
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (stock code: 0044)	Cash	63.6	65.6	62.9	57.4	50.4
7-Jun-18	Portico International Holdings Limited (stock code: 0589)	Cash	50.2	53.2	49.2	45.8	49.9
	Mean		45.2	55.4	58.4	60.1	57.7
	Median		41.7	52.4	54.7	51.9	46.9
	Maximum		150.0	133.9	99.3	127.6	144.1
	Minimum		10.0	12.0	17.4	24.4	21.9
6-Jul-20	The Proposal		35.5	52.5	60.8	53.8	51.9

Notes:

- The premia of the cancellation/offer price over the average share price for the respective periods were extracted from the announcement/composite document/scheme document in relation to the Privatisation Precedent or, if such data is not available in the announcement/composite document/scheme document, calculated based on (i) the cancellation/offer price as disclosed in the announcement/composite document/scheme document; and (ii) the historical share closing prices of the relevant companies extracted from Bloomberg.

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2. For the purpose of this table, last trading day refers to the last full trading day for the shares of the subject company immediately before the publication of the relevant announcement for the privatisation proposal.
3. The premia are calculated based on the cancellation price of HK\$0.924 which represents the scheme cash consideration of HK\$0.30 per scheme share and the value (based on the closing price on the last trading day) of eight shares of Wang On Group Limited (stock code: 1222).
4. The premia are calculated based on the cancellation price of HK\$71.90 which represents the scheme cash consideration of HK\$12.00 per scheme share and the value (based on the closing price on the last trading day) of one share of Wharf Real Estate Investment Company (stock code: 1997) and one share of The Wharf (Holdings) Limited (stock code: 0004).
5. The cash alternative of HK\$5.45 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative implies a consideration for each ordinary scheme share of approximately HK\$3.77 to HK\$5.39 as disclosed in the scheme document.

As shown in the table above, the cancellation/offer price of the Privatisation Precedents are all at a premium over the last trading day share price and average closing prices for 10-day, 30-day, 90-day and 180-day periods of the respective companies, with mean of approximately 45.2%, 55.4%, 58.4%, 60.1% and 57.7% respectively. Further, the cancellation/offer prices of the two Privatisation Precedents involving share and cash offers represent an average premium of approximately 48.3%, 71.9%, 67.7%, 74.5% and 76.4% over the last trading day share price and average closing prices for 10-day, 30-day, 90-day and 180-day periods.

In comparison, the Implied Cancellation Price represents a premium of approximately 35.5%, 52.5%, 60.8%, 53.8% and 51.9% as compared to the closing price of HRIV Share on the Last Trading Day and average closing price for 10-day, 30-day, 90-day and 180-day periods, which are generally in line with the mean of the premia offered under the Privatisation Precedents and below the mean of the premia offered under the two Privatisation Precedents involving share and cash offers. Accordingly, we consider the premium represented by the Implied Cancellation Price is in line with market practice for privatisation proposals and the Exchange Ratio is fair and reasonable.

8. Comparable companies

For the purpose of our assessment of the terms of the Proposal and the Scheme, we have considered evaluating the Implied Cancellation Price against the market valuation of companies which are listed on the Stock Exchange and are engaged in businesses similar to that of the HRIV Group.

Given HRIV's volatility in historical earnings, in particular a loss was recorded for the latest financial year, price-to-earnings ratio is not practicable for the purpose of our comparable analysis. We have also considered price-to-book ratio which is a commonly used valuation multiple to evaluate financial companies. However, as mentioned in the paragraph headed "Information of the HRIV Group" above, despite HRIV's total equity as at 30 June 2020 amounted to approximately HK\$1,285.0 million, an amount of HK\$1,424.1 million was attributable to the holders of the perpetual instrument and the equity attributable to the ordinary shareholders of HRIV was in a negative amount of HK\$139.1 million. In the circumstances, it is

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also not practicable to compute the price-to-book ratio based on the Implied Cancellation Price as a multiple to a net liability position of HRIV. As such, we are not able to conduct a meaningful comparable analysis.

9. Financial effects of the Proposal and the Scheme

9.1 Revenue and earnings

Upon Completion, HRIV will become an indirect wholly-owned subsidiary of the Company and the financial statements of the HRIV Group will be consolidated into the financial statements of the Enlarged Group. Accordingly, the Enlarged Group would have a much larger revenue base. It is expected that the implementation of the Proposal would not have immediate effect on the earnings of the Group, and the effect on future earnings will depend on the future financial performances of the HRIV Group, the realisation of the synergies as discussed in the paragraph headed “Reasons and benefits for the Proposal” above and the cost savings that may be enjoyed as a result of the combination of the businesses of the Group and the HRIV Group, which may not be quantified at the moment. For FY2019, the Group recorded a loss attributable to the Shareholders of approximately HK\$1,545.9 million, equivalent to a loss of approximately HK\$0.43 per Share. For illustrative purpose, based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular (the “**Pro Forma Financial Information**”), assuming Completion had taken place on 1 January 2019, the Enlarged Group would record a loss attributable to the Shareholders of approximately HK\$2,536.1 million, equivalent to a loss attributable to the Shareholders of approximately HK\$0.29 per Share, which represents a reduction of approximately 32.6% from the aforesaid loss per Share for FY2019.

9.2 Assets, liabilities and total equity

Upon Completion, the assets and liabilities of the HRIV Group will be consolidated into the financial statements of the Group. Based on the Pro Forma Financial Information, assuming Completion had taken place on 30 June 2020, the scale of the Group would be significantly enlarged - the total assets of the Group would increase from approximately HK\$13,211.5 million to approximately HK\$18,964.3 million; its total liabilities would increase from approximately HK\$10,874.7 million to approximately HK\$15,342.5 million; and total equity would increase from approximately HK\$2,336.8 million to HK\$3,621.8 million. The total equity of the Group and the pro forma total equity of the Enlarged Group upon Completion comprised equity attributable to the Shareholders and equity attributable to the holders of the perpetual securities issued by the Company and HRIV to the China Huarong Group. For the purpose of assessing the impact of the Proposal to the Shareholders, we consider it appropriate to focus on the financial effect of the Proposal on the equity attributable to the Shareholders. Based on the Pro Forma Financial Information, the equity attributable to Shareholders would increase from net liabilities of approximately HK\$420.6 million as at 30 June 2020 to approximately HK\$559.6 million upon Completion. Despite the increase in net liabilities attributable to the Shareholders, due

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to the issue of new Shares under the Proposal, the net liabilities attributable to the Shareholders per Share is expected to decrease from approximately HK\$0.12 to approximately HK\$0.06, representing an enhancement of approximately 50.0%.

9.3 Gearing

As at 30 June 2020, the gearing ratio (calculated as total liabilities divided by total assets) of the Group was approximately 0.82. Based on the Pro Forma Financial Information, assuming Completion had taken place on 30 June 2020, the gearing ratio of the Enlarged Group would be slightly decreased to approximately 0.81.

9.4 Cashflow

The Proposal is a securities exchange offer and, save for professional expenses incurred for the implementation of the Proposal, it does not involve any cash payments out of the Group and therefore would not have any immediate effect on the cashflow position of the Group.

10. Dilution impact on shareholding interests of the existing public Shareholders

As illustrated in the section headed “Shareholding structure of the Company” in the letter from the Board contained in the Circular, the shareholding percentage of the existing public Shareholders in the Company would decrease from approximately 27.4% as at the Latest Practicable Date to approximately 11.3% after Completion (assuming no changes to either of the Company’s issued share capital or HRIV’s issued share capital from the Latest Practicable Date to the effective date of the Scheme and subject to the Scheme becoming effective).

Although there will be dilution impact on the shareholding interests of the existing public Shareholders as a result of the Proposal and the Scheme, having considered that (i) the Proposal enables the Group to acquire sizeable business and assets of the HRIV Group without any cash outlay or additional indebtedness which would otherwise incur additional interest costs; and (ii) the long term benefits which may be realised following the implementation of the Proposal as discussed above, we consider the aforesaid dilution impact is, on balance, acceptable.

CONCLUSION

We consider that the terms of the Proposal, including the Exchange Ratio under the Proposal, are fair and reasonable so far as the Independent Shareholders are concerned after taking into account the above principal factors and reasons, in particular:

- (i) the Proposal is being put forward to all the Scheme Shareholders and all Scheme Shareholders (including those Scheme Shareholders who are connected persons of the Company) shall be issued new Shares in the same Exchange Ratio based on their holding of Scheme Shares as at the Scheme Record Date;

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- (ii) the premia of the Implied Cancellation Price under the Scheme over historical share prices of HRIV as at the Last Trading Day and over different periods before the Last Trading Day are within the range of the premia of the Privatisation Precedents for the corresponding periods, which suggests that the basis of the Exchange Ratio in terms of market prices is in line with market practice for privatisation proposals;
- (iii) the Proposal represents an opportunity to effect a merger of the businesses of the HRIV Group and the Group. There are certain overlapping businesses of the Group and the businesses of the HRIV Group, e.g. both groups are engaged in direct investment businesses. The merger is, in our view, a sensible commercial move to enable the Group to combine the resources available to the HRIV Group from independent parties as well as from the parent company to create a unified platform, enhance resources allocation and efficiency, and enjoy economies of scale;
- (iv) on the other hand, other than direct investment business, the Group and the HRIV Group are engaged in businesses in different segments of financial services. The Group is focused on regulated financial services in Hong Kong while the HRIV Group is currently engaged in the provision of finance leasing and related services. The Proposal represents an opportunity for the Group to enlarge its services offering, enabling it to provide comprehensive services to clients and creating business synergies among different business segments of the Group;
- (v) the Proposal would result in a substantial enlargement of the size of the Company in terms of total assets, net assets, equity and possibly market capitalisation. The enlarged size of the Company would enable it to become an industry player of scale with a wider shareholders base and enhance its attractiveness to investors in the capital market;
- (vi) the Proposal is expected to bring long term benefits to the Company following the combination of the Group and the HRIV Group into a unified platform. Potential competition for business opportunities with HRIV would be eliminated, and better leverage on the support of China Huarong in terms of brand strength, industry experience, service network and resources allocation are expected;
- (vii) the possible cost savings following the combination of the operations of the Group and the HRIV Group are expected to enhance the overall performance and return of the Enlarged Group's businesses; and
- (viii) the Proposal involving the issue of new Shares in exchange for the Scheme Shares allows the Group to acquire a sizeable business and assets of the HRIV Group without any cash outlay or additional indebtedness which would otherwise incur additional interest costs, and the net liabilities attributable to the Shareholders would be reduced on a per Share basis. Further, having considered that the terms of the Proposal including the Exchange Ratio are fair and reasonable as discussed above and the potential long term benefits of the Proposal to the Enlarged Group, we consider the dilution is, on balance, acceptable.

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OPINION AND RECOMMENDATION

Based on the above analysis, we consider although the Proposal and the Scheme are not in the ordinary and usual course of business of the Group, the terms of the Proposal and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned and the Proposal and the Scheme are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Proposal.

Yours faithfully
for and on behalf of
OPTIMA CAPITAL LIMITED
Beatrice Lung
Managing Director, Corporate Finance

Ms. Beatrice Lung is a responsible officer of Optima and a licensed person registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2019 (the “**Audited Financial Statements**”) and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 (the “**Interim Financial Statements**”) are disclosed in the following documents which have been published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hrif.com.hk>), and are accessible via the following hyperlinks:

- the annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”) published on 10 April 2018 (pages 70 to 179):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0410/ltn20180410730.pdf>

<http://group.hrif.com.hk/upload/20180410/20180410185015474.pdf>

- the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”) published on 29 April 2019 (pages 88 to 226):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904293008.pdf>

<http://group.hrif.com.hk/upload/20190603/2019060300002.pdf>

- the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”) published on 28 April 2020 (pages 92 to 228):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801902.pdf>

<http://group.hrif.com.hk/upload/20200428/20200428180327391.pdf>

- the interim results announcement of the Company for the six months ended 30 June 2020 (the “**2020 Interim Results Announcement**”) published on 26 August 2020 (pages 1 to 20):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0826/2020082601421.pdf>

<http://group.hrif.com.hk/upload/20200826/20200826224859601.pdf>

The Audited Financial Statements and the Interim Financial Statements (but not any other part of the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Results Announcement) are incorporated by reference into this circular and form part of this circular.

2. INDEBTEDNESS

As at the close of business on 31 July 2020, being the most recent practicable date for the purpose of this statement of indebtedness and contingent liabilities prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

	<i>Notes</i>	As at 31 July 2020 <i>HK\$'000</i>
Current		
Bank borrowings – secured and unguaranteed	(a), (b)	210,381
Bank borrowings – unsecured and unguaranteed	(c)	3,309,785
Other borrowings – unsecured and unguaranteed	(d), (e)	924,106
Lease liabilities	(g)	<u>54,943</u>
		<u>4,499,215</u>
Non-current		
Bank borrowings – secured and unguaranteed	(a)	69,386
Other borrowings – unsecured and unguaranteed	(e), (f)	7,448,389
Lease liabilities	(g)	<u>110,235</u>
		<u>7,628,010</u>
Total indebtedness		<u><u>12,127,225</u></u>
Pledge of assets		
Finance lease receivable pledged	(h)	356,753

Notes to statement of indebtedness of the Enlarged Group as at 31 July 2020:

The Enlarged Group had bank borrowings as follows:

- (a) Bank borrowings of approximately HK\$150 million were interest-bearing and secured by a finance lease receivable and unguaranteed;
- (b) Bank borrowings of approximately HK\$130 million were interest-bearing, secured by time deposits and unguaranteed; and
- (c) Bank borrowings of approximately HK\$3,310 million were interest-bearing, unsecured and unguaranteed.

The Enlarged Group had other borrowings as follows:

- (d) Unsecured and unguaranteed borrowings of approximately HK\$562 million from a fellow subsidiary were interest-bearing;

- (e) Unsecured and unguaranteed borrowings of approximately HK\$5,284 million from an intermediate holding company were interest-bearing;
- (f) Unsecured and unguaranteed borrowings of approximately HK\$2,526 million from a fellow subsidiary, Right Select, were interest-bearing;
- (g) The balance represented lease liabilities of approximately HK\$165 million arising from lease contracts for plant, property and equipment and were secured by the rental deposits paid and not guaranteed; and
- (h) The balance represented a finance lease receivable pledged for the bank borrowings mentioned in note (a), which was secured and unguaranteed. The balance was recorded at its gross balance before any impairment allowances.

Save as disclosed above, as at the close of business on 31 July 2020, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, lease liabilities, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As disclosed in the interim results announcement of the Company for the six months ended 30 June 2020, the complicated and ever-changing economic environment coupled with the impact of the COVID-19 pandemic have created pressure on the market as a whole and inevitably caused adverse impact on the financial performance of the Group in the first half of 2020. For the six months ended 30 June 2020 (“1H2020”), the Group reported an increased loss attributable to the Shareholders of approximately HK\$508.0 million, as compared to that of approximately HK\$263.8 million for the corresponding period in 2019 (“1H2019”). The increase in loss attributable to the Shareholders was primarily due to (i) the drop in interest income and investment income for 1H2020; and (ii) the loss of approximately HK\$276.1 million arising from the adverse fair value change of the financial assets at fair value through profit or loss for 1H2020, as opposed to the gain of approximately HK\$378.3 million for 1H2019. The drop in interest income and investment income was resulted from the Group’s cautious approach to optimise its investment portfolio. However, impairment losses, net of reversal (including provisions for receivables, loans and advances in margin financing) decreased to approximately HK\$93.2 million for 1H2020 from approximately HK\$685.7 million for 1H2019, and finance costs also decreased to approximately HK\$317.7 million for 1H2020 from approximately HK\$696.3 million for 1H2019 due to the reduction of interest-bearing borrowings, which narrowed the range of the net loss of the Group.

Save as disclosed above, as at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources and the banking and other facilities (including but not limited to the internally generated cash flows, existing cash and bank balances and external borrowings) available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is engaged in various securities business, corporate finance and asset management business through (i) Huarong International Securities Limited, (ii) Huarong International Capital Limited and (iii) Huarong International Asset Management Limited. HRIV Group's principal business are direct investments in stock, bonds, funds, derivatives and other financial products, financial services and others including but not limited to finance leasing and money lending.

The Proposal will allow the Enlarged Group (immediately upon the Scheme becoming effective) to be well-positioned to implement its development strategy of "investment + investment banking". For example, HRIV's investment in a number of companies' equity capital could bring in potential clients and create opportunities for the Group's corporate finance business (i.e. investment banking) when HRIV's investment targets seek investment banking services such as initial public offerings or mergers and acquisitions. This allows the Enlarged Group to provide more comprehensive services to its clients. The Enlarged Group can also achieve economies of scale and cost savings from operational synergies in information technology and other back office functions and more efficient use of staffing in the Enlarged Group. In view of the above, the directors of the Enlarged Group are confident about the financial and trading prospects of the Enlarged Group.

In view of the volatile financial market in the recent years, after the privatization of HRIV and HRIV becomes a wholly-owned subsidiary of the Company, the Enlarged Group will focus its resources on further developing its Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO through its subsidiaries while HRIV will maintain its current principal business. Though the Enlarged Group is implementing its development strategy of "investment + investment banking", the focus of the Enlarged Group will be more on generating fee income from providing financial services instead of capital gain income from direct investments in financial products, so as to reduce the Enlarged Group's risk exposure to the volatile financial market, which is expected to continue in the coming years.

In the first half of 2020, the ongoing coronavirus disease (COVID-19) pandemic, together with global economic and trade frictions and tensed geopolitical relations, struck a heavy blow on the world economy. The Company and HRIV have been adversely affected in the first half of 2020. For details about the financial information of the Group and the HRIV Group, please refer to Appendix I and Appendix III of this circular. It is expected that the same situation will continue in the second half of 2020 and the Enlarged Group may continue to suffer from the volatile financial market and the financial result of the Enlarged Group may be negatively affected. In order to alleviate the effect of external environment on the Enlarged Group, the Enlarged Group will implement its development strategy of “investment + investment banking” as mentioned above steadily under this challenging external environment.

Upon the Scheme becoming effective, HRIV will become a wholly-owned subsidiary of the Company and the assets, liabilities and financial results of the HRIV Group will be consolidated by the Company. Based on the unaudited net assets of the Group and the HRIV Group as at 30 June 2020 of approximately HK\$2,336,781,000 and approximately HK\$1,284,967,000, respectively, the net assets of the Enlarged Group (immediately upon the Scheme becoming effective) would increase.

Based on the growth prospects of the Company and HRIV as disclosed in the section headed “4. Reasons for and benefits of the Proposal” in the “Letter from the Board” of this circular, the Board believes that the privatization of HRIV pursuant to the Scheme would have a positive impact on the growth of the Enlarged Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 extracted from the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Results Announcement respectively. Unless otherwise defined in this circular or the context otherwise requires, capitalised terms used in this Appendix II shall have the same meanings as those ascribed in the abovementioned annual reports and interim results announcement of the Company, as the case may be.

1. FOR THE YEAR ENDED 31 DECEMBER 2017**Financial Highlights**

For the year ended 31 December 2017 (the “**2017 Year**”), the Group recorded revenue of approximately HK\$2,023,030,000 as compared to approximately HK\$727,066,000 for the year ended 31 December 2016 (the “**2016 Year**”), gain on disposal of available-for-sale investments of approximately HK\$55,358,000 as compared to nil for the 2016 Year and net gains on financial assets at fair value through profit or loss of approximately HK\$756,502,000 as compared to approximately HK\$674,963,000 for the 2016 Year. Therefore, the total of revenue, net gains on financial asset at fair value through profit or loss and gain on disposal of available-for-sale investment for the 2017 Year increased to approximately HK\$2,834,890,000 as compared to approximately HK\$1,402,029,000 for the 2016 Year, representing an increase of approximately 102.2%. Profit attributable to the Shareholders for the 2017 Year significantly increased to approximately HK\$964,093,000 as compared to that of approximately HK\$550,914,000 for the 2016 Year, representing an increase of approximately 75.0%. This achievement was attributable to the increase in operating profit for the 2017 Year from the three operating segments, namely (i) asset management and direct investment segment; (ii) corporate finance segment; and (iii) securities segment. The performance of these segments will be discussed further below.

Basic earnings per Share was HK27.06 cents for the 2017 Year as compared to HK16.41 cents for the 2016 Year, and no diluted earnings per Share was presented for the 2017 Year as compared to HK16.40 cents for the 2016 Year as there was no potential ordinary shares outstanding for the year ended 31 December 2017.

Market Review

In 2017, amid the global economic rebound, the pace of economic growth accelerated, with a sign of recovery shown in investment, trading and bulk commodity prices while stock markets remained buoyant. Due to the steady and positive development of the PRC’s economy at the time, the PRC’s gross domestic product (GDP) in 2017 recorded a growth of 6.9% over 2016, which rebounded for the first time since the slowdown of economic growth in 2011. The performance of Hong Kong’s capital market in 2017 was also impressive as Hang Seng Index became one of the indices with the most outstanding performance in the world. Following the

launch of “Shanghai-Hong Kong Stock Connect”, “Shenzhen-Hong Kong Stock Connect” and “Bond Connect”, the internal and external synergy were greatly enhanced. As of the date of the 2017 Annual Report, Hong Kong remained prominent as an international financial centre and was also the core hub among the countries and regions along the “One Belt, One Road” regions. Leveraging on the positive economic development around the globe and Hong Kong’s unique position, in 2017, the Group’s development was strongly underpinned.

Business Review

In 2017, the Group upheld the development principle of “Robust Progress” and proactively responded to both internal and external opportunities and challenges. The Group continuously optimized its business structure and further strengthened its internal management. It also put great effort in expanding the financial licensed business and provided customers with professional and a package of comprehensive financial services through the synergy of all business lines, so as to promote the rapid development of the three business segments of the Group, namely, asset management and direct investment, corporate finance and securities, which enhanced the market competitiveness and brand influence of the Group.

Asset Management and Direct Investment

The asset management and direct investment segment provided asset management services, direct investments in equities, bonds, funds, derivative instruments and other financial products, as well as money lending services. In 2017, the Group dovetailed with the initiative of “One Belt, One Road” and brought its financial licensed business and synergy of business lines into full play. The Group also sought to provide customers with customised, professional and integrated financial service solutions through establishing long term partnerships. To continuously enhance its investment revenue, in 2017, the Group carried out various measures, including subdividing and optimising its professional investment teams, actively analysing and exploring market opportunities, and focusing on investment portfolio diversification. For the 2017 Year, the segment revenue from external customers was approximately HK\$1,307,439,000 as compared to approximately HK\$218,469,000 for the 2016 Year; the net gains on financial assets at fair value through profit or loss increased from approximately HK\$674,963,000 for the 2016 Year to approximately HK\$756,502,000 for the 2017 Year; the gain on disposal of available-for-sale investments was approximately HK\$55,358,000 for the 2017 Year as compared to nil for the 2016 Year; the segment result was approximately HK\$1,021,589,000 for the 2017 Year as compared to approximately HK\$572,241,000 for the 2016 Year, representing an increase of approximately 78.5%.

Meanwhile, in 2017, the Group also actively examined the credit risk and market risk exposure of its investment, enhanced the criteria for customer screening and risk control, strengthened the various measures for post-investment management and responded to changes in the market promptly and flexibly. During the 2017 Year, this segment business successfully improved both in terms of business scale and quality.

Corporate Finance

The corporate finance segment was devoted to providing institutional clients with comprehensive securities issuance and underwriting, financial advisory and financing arrangement services. Leveraging on the diversified client portfolio of China Huarong, in 2017, the corporate finance segment continued to put greater efforts in market expansion and to explore effective cooperation among different licensed businesses. Several large issues of USD bonds, financial advisory on merger and acquisition and underwriting of initial public offering (IPO) and placing in secondary market, together with equity financing projects were completed in 2017. For the 2017 Year, revenue from the corporate finance segment amounted to approximately HK\$314,361,000 as compared to approximately HK\$219,412,000 for the 2016 Year, representing an increase of approximately 43.3%; the segment result was approximately HK\$298,604,000 for the 2017 Year as compared to approximately HK\$198,256,000 for the 2016 Year, representing an increase of approximately 50.6%. Based on the aforementioned, as of the date of the 2017 Annual Report, it was expected that the corporate finance segment would continue to promote rapid business development through capturing its business synergy and expanding its customer base.

Securities

The securities segment comprised broking and dealing of securities, futures and options contracts, security custody services and the provision of margin financing services. The revenue from the securities segment for the 2017 Year was approximately HK\$401,230,000 as compared to approximately HK\$289,185,000 for the 2016 Year, representing an increase of approximately 38.8%; the segment result amounted to approximately HK\$169,523,000 for the 2017 Year as compared to approximately HK\$144,685,000 for the 2016 Year, representing an increase of approximately 17.2%. The increase mainly came from the growth of interest income from margin loans. As at 31 December 2017, the margin loan balance was approximately HK\$4,948,219,000, representing an increase of approximately 16.8% as compared to approximately HK\$4,236,463,000 as at 31 December 2016. After a strategic adjustment of its margin financing business in the first half of 2017, the Group had further diversified the portfolio of margin financing stocks and reduced its exposure to concentration risk, causing the growth in its margin financing business to slow down. During the second half of the 2017 Year, the securities segment focused on the development of security custody business and standardized handbook for security custody business with the aim to enhance the quality and efficiency of the customer services of the Group. Based on the diversified customer base of each business line, following the 2017 Year, the securities segment intended to expand the scale of security custody assets and therefore increase the revenue of custody business.

Prospect

As of the date of the 2017 Annual Report, despite favorable economic development prospects, the global economy was still exposed to multiple risks of asset bubbles, high debt levels and protectionism, which caused considerable uncertainties. Following the 2017 Year, the

Group intended to continue to strengthen its core business, revitalize existing inventories, implement the transformation from asset-heavy to asset-light business model and enhance quality and control over risks. It also intended to provide comprehensive financial services, achieve high-quality development and uphold the internationalised strategy of “laying a solid foundation in Hong Kong, Macau and Taiwan, providing services to the Greater China, coinciding with the ‘One Belt, One Road’ initiative, building internal and external synergy” and further expand the business of the Company, striving synergy to maximize values and returns for shareholders.

Financial Review

Capital Structure

In February 2017, the Company issued and allotted 250,358,093 rights Shares at HK\$2.63 per rights Share on the basis of 1.5 rights Shares for every 20 existing Shares held by the qualifying Shareholders on the record date of 11 January 2017, and successfully raised net proceeds of approximately HK\$652,032,000 for expanding and developing its securities and direct investment business.

In February and December 2017, the Company issued senior perpetual capital securities in the principal amount of US\$99,118,000 (equivalent to approximately HK\$769,354,000) and unsubordinated perpetual securities in the principal amount of approximately US\$53,846,000 (equivalent to approximately HK\$420,969,000) to CHIH respectively. The senior perpetual capital securities and unsubordinated perpetual securities were accounted for as equity in the statement of financial position of the Company.

Due to the aforementioned rights issue and the issue of senior perpetual capital securities and unsubordinated perpetual securities to CHIH, the capital base of the Group increased. As at 31 December 2017, the gearing ratio decreased to approximately 813.2% (2016: 1,340.7%), being calculated as interest-bearing borrowings over the Group’s shareholders’ equity.

As at 31 December 2017, the total number of issued shares of the Company (with the par value of HK\$0.001 each) was 3,588,466,011 as compared to 3,338,107,918 as at 31 December 2016, and the total equity attributable to Shareholders was approximately HK\$4,062,822,000 as compared to approximately HK\$1,286,941,000 as at 31 December 2016, representing an increase of 216%. The increase was attributable to the rights issue and the issue of senior perpetual capital securities and unsubordinated perpetual securities.

Liquidity and Financial Resources

Over the 2017 Year, the Group reviewed the liquidity position regularly and managed liquidity position and financial resources actively according to the changes on economic environment and business development needs. As at 31 December 2017, the Group had total cash and cash equivalents amounting to approximately HK\$3,524,781,000 (2016: HK\$956,675,000),

which already excluded approximately HK\$848,591,000 (2016: HK\$3,315,589,000) of client funds that were kept in separate designated bank accounts.

The rapid development of the Group in 2017 was attributable to the continuous support from controlling shareholders of the Group. As at 31 December 2017, the Group had obtained shareholder loans in an aggregate principal amount of approximately US\$2,379,680,000 (equivalent to approximately HK\$18,604,336,000) (2016: US\$1,500,000,000, equivalent to approximately HK\$11,634,000,000) from CHIH and RMB500,000,000 (equivalent to approximately HK\$598,150,000) (2016: nil) from China Huarong, which were unsecured and unguaranteed.

In addition, in 2017, the Group actively expanded financial resources through establishing business relationship with various financial institutions. As at 31 December 2017, the Group had undrawn bank facilities of approximately HK\$1,963,232,000 (2016: HK\$807,500,000) and withdrawn outstanding bank borrowings of approximately HK\$13,835,491,000 (2016: HK\$5,620,480,000).

For the subsidiaries of the Company licensed by the SFC, over 2017, the Group ensured that each of such subsidiaries maintained a liquidity level adequate to support its level of activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in its level of business activities. During the 2017 Year, all the licensed subsidiaries of the Company have complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 31 December 2017, time deposits with carrying amount of approximately HK\$1,898,063,000 (2016: nil) were pledged to secure bank loan facilities of the Group.

Foreign Exchange Exposures

During the 2017 Year, the Group's principal operations in Hong Kong and overseas were transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC were transacted and recorded in Renminbi. The Group was not exposed to material foreign exchange risk because Hong Kong dollars were pegged with United States dollars, and the revenue from PRC operations only represented a small fraction of that of the Group. Other foreign currency exposure was relatively minimal to the total assets and liabilities of the Group. As a result, as of the date of the 2017 Annual Report the Group considered that its foreign exchange risk exposure was manageable and following the 2017 Year the Group intended to closely monitor the risk exposure from time to time.

Contingent Liabilities

Regarding the alleged claims against Huarong International Securities Limited (formerly known as United Simsen Securities Limited) (“HISL”), an indirectly wholly-owned subsidiary of the Company, that was previously disclosed in the audited financial statements of the Group for the period from 1 May 2015 to 31 December 2015, no further action had been made by the plaintiff and no substantial progress had been made since August 2013 up until 31 December 2017. Throughout the 2017 Year, the Group had sought legal advice on the alleged claims and the Directors considered that HISL had good defence and had a strong case to pursue its counterclaim against the plaintiff. As of the date of the 2017 Annual Report, the Directors considered that it was not probable that there would be any significant financial impact to the Group arising from these alleged claims.

Employee and Remuneration Policy

As at 31 December 2017, the Group employed a total of 169 employees (2016: 137 employees). The Group’s staff recruitment and promotion in 2017 were primarily based on individuals’ merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which were formulated by reference to the market, were competitive and performance based.

2. FOR THE YEAR ENDED 31 DECEMBER 2018**Financial Highlights**

For the year ended 31 December 2018 (the “**2018 Year**”), the Group recorded a revenue of approximately HK\$2,271,555,000 (the 2017 Year: approximately HK\$2,023,030,000), net loss on financial assets at fair value through profit or loss of approximately HK\$1,347,321,000 (2017 Year: net gains of approximately HK\$756,502,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK\$55,629,000 (2017 Year: HK\$ nil) and no gain on disposal of available-for-sale investments (2017 Year: approximately HK\$55,358,000). Therefore, the total of revenue and gains or losses described above decreased to approximately HK\$868,605,000 for the 2018 Year as compared to approximately HK\$2,834,890,000 for the 2017 Year. Loss attributable to Shareholders for the 2018 Year was approximately HK\$1,548,222,000 as compared to the profit attributable to Shareholders of approximately HK\$964,093,000 for the 2017 Year. The result was due to the decrease in operating profit for the 2018 Year from the three operating segments, namely (i) asset management and direct investment segment; (ii) corporate finance segment; and (iii) securities segment. The performance of these segments will be discussed further below.

Basic loss per Share was HK\$43.14 cents for the 2018 Year as compared to basic earnings per Share of HK\$27.06 cents for the 2017 Year, and no diluted loss/earnings per Share was presented for the 2018 Year and the 2017 Year as there was no diluted financial instrument for both years.

Market Review

In 2018, the global economy has experienced ups and downs. Financial markets and commodity prices fluctuated sharply, global investment plunged drastically, and international trade protectionism and unilateralism prevailed. The overall economic market underwent dramatic adjustments triggered by factors such as trade frictions, Fed hikes rate and geopolitical risks. Although the PRC's economy was facing changes amid stability with worrying concerns and increased downward pressure, there were still favourable internal conditions to support stable development of the PRC's economy, and as such in 2018 the PRC's economy was still operating within a reasonable range. In the 2018 Year, the gross domestic product (GDP) of the PRC, exceeding for the first time ever RMB90 trillion, grew by 6.6% as compared to the 2017 Year and its growth rate ranked first among the top five economies in the world.

The national economy of the PRC has maintained steady progress in 2018. The stabilised macro-leverage ratio, remarkable success in poverty alleviation and the deepened reforms in structure of the supply-side provided guarantees for economic development. The capital market of Hong Kong had a standardised market system, advanced commercial infrastructure, a fair and transparent regulatory system and a low tax-rate environment. With the development of the Greater Bay Area of Guangdong, Hong Kong and Macao and the continuously deepening of the "One Belt, One Road" initiative, together with the opening up of Guangzhou-Shenzhen-Hong Kong High Speed Rail Hong Kong section and the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong market gained new development momentum in 2018.

Business Review

In 2018, global economic environment became complex and rapidly changing while securities market in Hong Kong kept slumping. The Group increased its provision for project risks, and unrealised (non-cash) losses arising from the unfavorable fair value movements in financial assets at fair value through profit and loss also increased significantly. In response to various internal and external challenges, over the 2018 Year, the Group took measures with proactive adjustment of the compressed business scale and optimization of the structure, strengthened risk management and controls, prevented and resolved risks, and promoted various operations and management progressively.

Asset Management and Direct Investment

The asset management and direct investment segment provided asset management services, direct investments in stocks, bonds, funds, derivative instruments and other financial products, as well as money lending services. During the year of 2018, the Group adopted a more cautious approach to business operation in light of the then economic environment and the gradual implementation of the national "deleverage" policy. Throughout the 2018 Year, the Group continued to actively review various risks, prudently carried out relevant business, strengthened various risk management and control measures such as market risk and credit risk, enhanced post-investment management, continuously reviewed the operation of counterparties and the

value of collaterals, and formulated corresponding risk prevention measures. For the 2018 Year, the segment revenue was approximately HK\$1,754,596,000 as compared to approximately HK\$1,307,439,000 for the 2017 Year; the net gains on financial assets at fair value through profit or loss decreased from gain of approximately HK\$756,502,000 for the 2017 Year to loss of approximately HK\$1,347,321,000 for the 2018 Year; the segment result was loss of approximately HK\$1,247,067,000 for the 2018 Year as compared to profit of approximately HK\$1,021,589,000 for the 2017 Year.

Securities

In 2018, in the face of global market turmoil, the stock market, the bond market and the crude oil market were responding to the ambient uncertainty and the financial market volatility caused by the normalisation of the US monetary policy. The Group adjusted and optimised its business strategy in margin financing business in order to further reduce business operation risk. Meanwhile, also during the 2018 Year, the Group put great efforts in expanding the brokerage and securities business, improving and optimizing the product platform, investing more resources to establish a quantitative trading pipeline, actively adjusting the existing operating mechanism, and focusing on customer service improvement and capital recovery. Leveraging on diversified client portfolio of China Huarong, the trading volume of securities of the Group improved in 2018, and the Group entered the securities dealer in Categories B from securities dealer in Categories C, and the brand of Huarong had been effectively upgraded. For the 2018 Year, the revenue from the securities segment was approximately HK\$486,065,000 as compared to approximately HK\$401,230,000 for the 2017 Year, representing an increase of approximately 21.1%; the segment result for the 2018 Year amounted to loss of approximately HK\$166,468,000 as compared to profit of approximately HK\$169,523,000 for the 2017 Year.

Corporate Finance

The corporate finance segment was devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In 2018, the Group promoted several USD bonds issuance, and explored effective cooperation among different licensed businesses so as to promote steady business development. For the 2018 Year, revenue from the corporate finance segment amounted to approximately HK\$30,894,000, representing a decrease as compared to approximately HK\$314,361,000 for the 2017 Year; the segment result was approximately HK\$22,560,000 as compared to approximately HK\$298,604,000 for the 2017 Year.

Prospect

Looking on at the end of the 2018 Year, the global economy in 2019 would remain uncertain, given the many uncertainties in the geopolitical situation, trade disputes and global economic activities, and the financial market may still fluctuate, but it was expected as of the date of the 2018 Annual Report that there would still be opportunities in 2019 amid the crisis. Facing the novel situation of internal and external environment, following the 2018 Year, the

Group intended to adhere to the concept of quality development in line with the core connotation of “highlighting principal business, sound finance, controllable risks, and effective collaboration”, and in order to seek stable progress, the Group also intended to proactively expand its licensed business, persistently strengthen its principal business and stick to its origin: for assets management and direct investment, to actively examine various risks and prudently carry out related business and strengthen various risk management measures such as market risk, credit risk and operational risk to improve customer access and risk control standards; and for the securities business, to capitalise on the advantages of platforms, focus on customer service improvement and capital recovery, and improve quality and implement risk control. Focusing on the “investment + investment bank” business model and in accordance with “Professional, International and Market-oriented” guidance, the Group also intended to cooperate with domestic and overseas customers and institutions so as to promote business transformation. With the continuous support of the controlling shareholder China Huarong, as of the date of the 2018 Annual Report, the Group intended to take forward various operations and management works in a steady and orderly manner with aim to build a “brand-new Huarong” to ensure the stable and sustainable development of the Group, and strive to create greater value for the Shareholders.

Financial Review

Capital Structure

As at 31 December 2018, the total number of issued shares of the Company (with the par value of HK\$0.001 each) was 3,588,466,011 and the total equity attributable to Shareholders was approximately HK\$2,070,447,000 as compared to approximately HK\$4,062,822,000 as at 31 December 2017, representing a decrease of approximately 49.0%.

Liquidity and Financial Resources

Over the 2018 Year, the Group reviewed the liquidity position regularly and managed liquidity and financial resources actively according to the changes on economic environment and business development needs. As at 31 December 2018, the Group had total cash and cash equivalents amounting to approximately HK\$2,401,797,000 as compared to HK\$3,524,781,000 as at 31 December 2017, which has already excluded approximately HK\$396,500,000 (as compared to HK\$848,591,000 as at 31 December 2017) of client funds that were kept in separate designated bank accounts. The Group’s gearing ratio as at 31 December 2018 was 1,230.6% as compared to 813.2% as at 31 December 2017, being calculated as borrowings over the Group’s shareholders’ equity. The increased gearing ratio is attributable to significant loss for the 2018 Year recorded by the Group. As at 31 December 2018, the Group obtained shareholder loans in an aggregate principal amount of approximately US\$2,763,331,000 (equivalent to approximately HK\$21,644,937,000) (31 December 2017: US\$2,379,680,000) from CHIH and RMB1,569,000,000 (equivalent to approximately HK\$1,790,687,000) (31 December 2017: RMB500,000,000) from China Huarong, to support the business of the Group.

As at 31 December 2018, the Group has undrawn bank facilities of approximately HK\$1,971,206,000 (31 December 2017: HK\$1,963,232,000), and the Group utilised approximately HK\$2,042,304,000 (31 December 2017: HK\$13,835,491,000) of these banking facilities.

As at 31 December 2018, the Group has no bank borrowings that violate financial conditions or cross-default clauses.

For the subsidiaries of the Company licensed by the SFC, over 2018, the Group ensured each of such subsidiaries maintained a liquidity level adequate to support the level of regulated activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the 2018 Year, all the licensed subsidiaries of the Company have complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 31 December 2018, no time deposits with carrying amount (31 December 2017: HK\$1,898,063,000) were pledged to secure bank loan facilities of the Group.

Foreign Exchange Exposures

During the 2018 Year, the Group's principal operations in Hong Kong and overseas were transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC were transacted and recorded in Renminbi. The Group was not exposed to material foreign exchange risk because Hong Kong dollars were pegged with United States dollars, and the revenue from the PRC operations only represented a small fraction of that of the Group. Other foreign exchange risk exposure was relatively minimal to the total assets and liabilities of the Group. As a result, as of the date of the 2018 Annual Report the Group considered that its foreign exchange risk exposure was manageable and following the 2018 Year the Group intended to closely monitor the risk exposure from time to time.

Contingent Liabilities

Regarding the aforementioned alleged claims against HISL, still no further action had been made by the plaintiff and no substantial progress had been made since 1 January 2018 up until 31 December 2018. Throughout the 2018 Year, the Group had sought legal advice on the alleged claims and the Directors considered that HISL had a good defense and had a strong case to pursue its counterclaim against the plaintiff. As of the date of the 2018 Annual Report, the Directors considered that it was not probable that there would be any significant financial impact to the Group arising from these alleged claims.

Significant Securities Investment

The Group was primarily engaged in the provision of financial services, including but not limited to asset management and direct investment, securities and corporate finance services. During the 2018 Year, the Group held securities investments such as listed preference shares, listed equity investments, listed bonds, unlisted convertible bonds and convertible notes and unlisted fund investments, etc. In particular, the major significant investments which constituted 5% or more of the total assets of the Group as at 31 December 2018 comprise of three unlisted fund (“**Relevant Funds**”) investments held by the Group with aggregated carrying amount of approximately HK\$2,340 million. The Group had fully redeemed its investments in the Relevant Funds during the period between 1 January 2019 and 29 April 2019. For further details of the background of the Relevant Funds, please refer to the announcements of the Company dated 14 May 2017 and 16 June 2017. The details of the financial assets of the Group during the 2018 Year are also set out in notes 19, 20 and 21 to the financial statements of the Group for the 2018 Year contained within the 2018 Annual Report.

Employee and Remuneration Policy

As at 31 December 2018, the Group employed a total of 96 employees (31 December 2017: 169 employees). The Group’s staff recruitment and promotion in 2018 were primarily based on individuals’ merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which were formulated by reference to the market, were competitive and performance based.

3. FOR THE YEAR ENDED 31 DECEMBER 2019**Financial Highlights**

For the year ended 31 December 2019 (the “**2019 Year**”), the Group recorded a revenue of approximately HK\$1,667,189,000 (2018 Year: approximately HK\$2,271,555,000), net loss on financial assets at fair value through profit or loss of approximately HK\$9,802,000 (2018 Year: approximately HK\$1,347,321,000), and net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK\$18,715,000 (2018 Year: approximately HK\$55,629,000). Therefore, the total of revenue and gains or losses described above increased to approximately HK\$1,638,672,000 for the 2019 Year as compared to approximately HK\$868,605,000 for the 2018 Year. Loss attributable to Shareholders for the 2019 Year was approximately HK\$1,545,885,000 as compared to the loss attributable to Shareholders of approximately HK\$1,548,222,000 for the 2018 Year. Basic loss per Share was HK\$43.08 cents for the 2019 Year as compared to basic loss per Share of HK\$43.14 cents for the 2018 Year, and no diluted loss/earnings per Share was presented for the 2019 Year and the 2018 Year as there was no diluted financial instrument for both years.

Market Review

In 2019, the pace of global economic trade growth weakened while growth rate of major developed economies continued to decrease and emerging economies sustained increasing downward pressure. With tightening of financial environment, intensification of protectionism, and escalation of geopolitical tensions, global capital markets experienced significant fluctuation. Global economic growth rate dropped to 2.3% in 2019. Trade disputes caused disruption to global value chain, which in turn resulted in considerable uncertainties that posed tremendous challenges to global economic development. In order to address economic downward pressure, major economies adjusted their monetary policies from interest rate hikes and contraction of balance sheets to interest rate cuts and expansion of balance sheets. A new round of easing cycle commenced in 2019 as various emerging and developed countries started interest rate cuts.

Faced with complicated global economic environment, the PRC's economy maintained stable growth with a year-on-year GDP growth rate of 6.1% for the 2019 Year, achieving stable progress in national economy. The PRC effected three cuts of reserve requirement ratio (RRR) during the 2019 Year and implemented tax and fee reduction policies to relieve the hardships of enterprises and optimise the business environment in the PRC. Under the combined impact of social events in Hong Kong and slackened global economic growth, Hong Kong's economy experienced remarkable contraction in 2019. Nevertheless, opportunities in the market came along with challenges. With further progress in the building of the Guangdong-Hong Kong-Macau Greater Bay Area, Hong Kong consolidated its position as an international financial centre and an international asset management centre, attracting more domestic and overseas investors.

Business Review

The market faced pressure in 2019 as a result of the complicated and rapidly changing domestic and overseas macro-economic environment and the adverse impacts brought by social movements in Hong Kong. The Group made adjustment to the direction of business transformation proactively and further optimised its business structure by disposing of projects with greater risk exposure during the 2019 Year. The Group also made greater efforts in risk management and control, prevented and resolved risks effectively, and carried out various operational management tasks in a stable and orderly manner.

Asset Management and Direct Investment

The asset management and direct investment segment provided asset management services, direct investments in stocks, bonds, funds, derivative instruments and other financial products. In 2019, taking into account the current economic environment and the guiding principles for preventing and resolving financial risks of the PRC, the Group adopted a cautious approach to review its investment portfolio, strengthened various risk management and control measures such as that for market risks and credit risks, reviewed the operation of counterparties and the

value of collaterals on a continuous basis, formulated corresponding risk prevention measures and enhanced post-investment management. In addition, also during the 2019 Year, the Group proactively divested and disposed of risk assets, so as to further improve the Group's investment portfolio and business structure. The segment revenue was approximately HK\$1,242,570,000 for the 2019 Year as compared to approximately HK\$1,754,596,000 for the 2018 Year; the net losses on financial assets at fair value through profit or loss decreased from approximately HK\$1,347,321,000 for the 2018 Year to approximately HK\$9,802,000 for the 2019 Year; the segment result was loss of approximately HK\$739,256,000 for the 2019 Year as compared to loss of approximately HK\$1,247,067,000 for the 2018 Year.

Securities

Securities business segment included provision of brokerage services, margin financing and stocks, futures and options trading services. Due to the Sino-US trade war and economic downturn, investors were concerned about economic prospects while the securities business of the Group was under the profound impact of stagnant market in 2019. During the 2019 Year, the Group continued to adjust and optimise its business strategy in margin financing business in order to further reduce business operation risks. Meanwhile, leveraging on the diversified client portfolio of China Huarong, the Group further enhanced its sales and expanded product offerings in 2019. For the 2019 Year, the revenue from the securities segment was approximately HK\$415,712,000 as compared to approximately HK\$486,065,000 for the 2018 Year; the segment result amounted to loss of approximately HK\$575,230,000 as compared to loss of approximately HK\$166,468,000 for the 2018 Year, due to the increase in provisions.

Corporate Finance

The corporate finance segment was devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In 2019, the Group made several USD bond issuances and promoted steady business development. For the 2019 Year, revenue from the corporate finance segment amounted to approximately HK\$8,907,000 as compared to approximately HK\$30,894,000 for the 2018 Year; the segment result was loss of approximately HK\$5,064,000 as compared to gain of approximately HK\$22,560,000 for the 2018 Year.

Prospects

Looking into 2020 at the end of the 2019 Year, it was expected that economic recovery would face enormous challenges resulted from negative factors such as the intensified trade and investment war, Brexit, presidential election of the United States, geopolitical issues such as the turmoil in the Middle East, complicated and ever-changing trade issues between the United States and China, as well as political risks and trade disputes. The global outbreak of the COVID-19 since the end of 2019 and the beginning of 2020 has accelerated global economic downturn and the resultant panic chain effect has led to a slump in global stock markets, causing tremendous shock to financial markets. Nonetheless, central banks have been taking proactive

initiatives to minimise the possibility of a global recession in 2020. In respect of the PRC, despite the impact on its economy by the pandemic, the sizable consumer market in the PRC should lay a sound foundation for the economy, which has shown an upward development trend and is expected to recover gradually.

Following the 2019 Year, the Group intended to realise its transformational development by observing legal compliance, eagerly seizing hold of opportunities and conquering difficulties and hardships, and also continue to adhere to the general principle of making steady progress with an emphasis on quality improvement and efficiency enhancement: sticking to its origin, to follow the “investment + corporate finance” business model and make greater marketing and expansion efforts in the market and among customers to enhance market opportunities and broaden its customer base; under the principle of “professional, international and market-oriented”, to persist on compliance with laws and regulations, risk prevention and control, as well as healthy business operation in a bid to gradually increase its scale of asset management; and furthermore, with a focus on the principal businesses of China Huarong, to seek the business opportunities arising from the operation of overseas distressed assets and the reorganisation of non-performing enterprises, while giving full play to the advantages of its financial licensed business and synergic business as well as conducting asset management, direct investment, securities and corporate finance businesses in a sound and cautious approach. With the continuous support of the controlling shareholder, China Huarong, as of the date of the 2019 Annual Report, the Group intended to take forward various operations and management works in a steady and orderly manner with the aim to build a sustainable operation model, striving to create greater value for the Shareholders.

Financial Review

Capital Structure

As at 31 December 2019, the total number of issued shares of the Company (with par value of HK\$0.001 each) was 3,588,466,011 and the total equity attributable to Shareholders was approximately HK\$1,329,097,000 as compared to approximately HK\$2,070,447,000 as at 31 December 2018, representing a decrease of approximately 35.8%.

Liquidity and Financial Resources

Over the 2019 Year, the Group reviewed its liquidity position regularly and managed liquidity and financial resources actively according to the changes in economic environment and business development needs. As at 31 December 2019, the Group had total cash and cash equivalents amounting to approximately HK\$3,069,944,000 as compared to HK\$2,401,797,000 as at 31 December 2018, excluding client funds that were kept in separate designated bank accounts of approximately HK\$389,202,000 (as compared to HK\$396,500,000 as at 31 December 2018). The Group’s gearing ratio as at 31 December 2019 was 879.6% as compared to 1,230.6% as at 31 December 2018, being calculated as borrowings over the Group’s shareholders’ equity. The decrease in gearing ratio was attributable to the decrease in

shareholder loans in the 2019 Year. As at 31 December 2019, the Group obtained shareholder loans in an aggregate principal amount of approximately US\$1,161,685,000 (equivalent to approximately HK\$9,048,335,000) (31 December 2018: approximately US\$2,763,331,000 (equivalent to approximately HK\$21,644,937,000)) from CHIH to support the business of the Group and none was taken from China Huarong (31 December 2018: RMB1,569,000,000 (equivalent to approximately HK\$1,790,687,000)).

As at 31 December 2019, the Group had undrawn bank facilities of approximately HK\$1,625,500,000 (31 December 2018: approximately HK\$2,845,975,000) and the Group utilised approximately HK\$2,642,528,000 (31 December 2018: approximately HK\$2,042,304,000) of the relevant banking facilities.

As at 31 December 2019, the Group had no bank borrowings that violated financial conditions or cross-default clauses.

For the subsidiaries of the Company licensed by the SFC, over 2019, the Group ensured each of such subsidiaries maintained a liquidity level adequate to support the level of regulated activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the 2019 Year, all the licensed subsidiaries of the Company complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 31 December 2019, no assets of the Group (31 December 2018: none) were pledged to secure bank loan facilities of the Group.

Foreign Exchange Exposures

During the 2019 Year, the Group's principal operations in Hong Kong and overseas were transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC were transacted and recorded in Renminbi. The Group was not exposed to material foreign exchange risks because Hong Kong dollars were pegged to United States dollars and the revenue from the PRC operations only represented a small fraction of the Group's revenue. Other foreign currency exposure was relatively minimal when compared to the total assets and liabilities of the Group. As a result, as of the date of the 2019 Annual Report the Group considered that its foreign exchange risk exposure was manageable and following the 2019 Year the Group would closely monitor the risk exposure from time to time.

Contingent Liabilities

Regarding the aforementioned alleged claims against HISL, in 2019 no further action was taken by the plaintiff but HISL instead pursued its counterclaim against the plaintiff as the Directors considered that HISL had good defence and a strong case. In early March 2020, the plaintiff and HISL reached a settlement in respect with such proceeding and the consent order made by the Court of First Instance of the High Court of Hong Kong became effective on 9 March 2020 subsequently.

Significant Securities Investment

The Group was primarily engaged in the provision of financial services, including but not limited to asset management and direct investment, securities and corporate finance services. During the 2019 Year, the Group held securities investments such as listed preference shares, listed equity investments, listed bonds, unlisted convertible bonds and convertible notes and unlisted fund investments. As at 31 December 2019, the Group did not hold any significant investments which constitute 5% or more of its total assets.

Disposal of Subsidiaries

In October 2019, the Group entered into deeds of transfer to dispose of all its equity interests in two subsidiaries Huarong Tianhai (Shanghai) Investment Management Company Limited* (華融天海(上海)投資管理有限公司) and Wide Trend Global Limited, which were mainly engaged in investment management and which investment projects involved the provision of loan facilities and the subscription of financial instruments, to China Huarong Overseas Investment Holdings Co., Limited, a fellow subsidiary of China Huarong. Through the disposals, the Group was able to optimise its investment portfolio, mitigate its financial pressure, reduce the balance of its interest-bearing borrowings, and therefore lower its gearing ratio. Furthermore, the Group was able to reallocate its resources to other existing businesses, optimise its business structure and realise its development strategy of adopting a more cautious approach in business operation. The disposals were completed in December 2019.

Employee and Remuneration Policy

As at 31 December 2019, the Group employed a total of 71 employees (31 December 2018: 96 employees). The Group's staff recruitment and promotion in 2019 were primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which were formulated by reference to the market situation, were competitive and performance based. For further details of the Group's policy relating to its employees, please refer to the section headed "Environmental, Social and Governance Report – A People-Oriented Culture" in the 2019 Annual Report.

4. FOR THE SIX MONTHS ENDED 30 JUNE 2020**Financial Highlights**

For the six months ended 30 June 2020 (the “**2020 1H Period**”), the Group recorded a revenue of approximately HK\$361,852,000 (six months ended 30 June 2019 (the “**2019 1H Period**”): approximately HK\$954,154,000), net loss on financial assets at fair value through profit or loss of approximately HK\$276,054,000 (2019 1H Period: net gain of approximately HK\$378,252,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK\$16,166,000 (2019 1H Period: loss of approximately HK\$9,667,000). Therefore, the total of revenue, investment gains and losses described above amounted to approximately HK\$69,632,000 for the 2020 1H Period (2019 1H Period: net gains of approximately HK\$1,322,739,000). Net losses for the 2020 1H Period were approximately HK\$475,020,000 (2019 1H Period: loss of approximately HK\$230,752,000), while loss attributable to the Shareholders for the 2020 1H Period was approximately HK\$507,975,000 (2019 1H Period: loss of approximately HK\$263,806,000). The increase in loss attributable to Shareholders for the 2020 1H Period was principally due to a significant decrease in the revenue during the 2020 1H Period and a significant increase in the unrealised (non-cash) loss arising from the adverse fair value change of the financial assets at fair value through profit or loss during the 2020 1H Period. However, provisions for receivables, loans and advances in margin financing of the Group and finance costs for the 2020 1H Period both decreased, which narrowed the range of the net loss of the Group. Basic loss per Share was HK\$14.16 cents for the 2020 1H Period as compared to basic loss per Share of HK\$7.35 cents for the 2019 1H Period, and no diluted loss per Share has been presented for the 2020 1H Period and the 2019 1H Period as there was no diluted financial instrument for both periods.

Market Review

In the first half of 2020, the world economy experienced significant volatility. The global pandemic of coronavirus (COVID-19), together with global economic and trade frictions and tensed geopolitical relations, struck a heavy blow on the world economy. In order to curb the spread of the pandemic, most of the economies implemented quarantine and regional lockdown measures which limited factor mobility and foreign exchange to a great extent, creating enormous impact on production and trading activities. According to the estimate of the International Monetary Fund, global growth is projected to be -4.9% in 2020, while global economy is projected to contract by 3%. To relieve the tremendous economic downward pressure, many countries promulgated large-scale fiscal and monetary stimulus policies in a row to maintain the current economic operation.

As a result, the consumption, investment and export in the PRC took great hit, posing a tough challenge to the PRC’s economy in the first quarter of 2020. Facing the pandemic and the prevailing global situation, the PRC adopted a series of unusual measures with which it took the lead to contain the pandemic in the world and resumed normal operation and production entirely. In the second quarter of 2020, under the support of a series of economic control and regulatory

policies introduced by the PRC government, the PRC's economy rebounded rapidly to become the first among the world's major economies to recoup. The GDP of the PRC in the second quarter of 2020 increased by 3.2% year-on-year, indicating the swift recovery of national economy in a stable and positive manner.

Affected by a combination of factors including the COVID-19 pandemic, the contraction of global economy and the social events in Hong Kong, in the first half of 2020, the four pillar industries in Hong Kong have suffered from the most severe economic downturn in the decade. As of the date of the 2020 Interim Results Announcement, it was expected that following the implementation of the Hong Kong national security law, Hong Kong would be able to benefit from the stabilised social environment to give full play to its competitive edges, and with the economic turnaround and the furtherance of reform and opening up in mainland China, Hong Kong was also expected to take advantages of the major national development strategies such as Guangdong-Hong Kong-Macau Greater Bay Area and the Belt and Road Initiative, and achieve gradual economic recovery from the plight.

Business Review

In the first half of 2020, the complicated and ever-changing economic environment coupled with the impact of the COVID-19 pandemic created pressure on the market as a whole. These factors inevitably caused adverse impact on the financial performance of the Group in the first half of 2020. Confronting the challenging external environment, over the 2020 1H Period, the Group adhered to the strategy of making steady progress by enhancing risk management and control and returning to its core business. While seizing market opportunities arising in this special period with the full play of the synergic effect of its licence business, the Group also continued to explore business opportunities and expedited the business transformation and development.

During the 2020 1H Period, in view of the development of the COVID-19 pandemic, the Group also took various prevention measures and adopted a flexible working policy under which the employees of the Group were arranged to work from home by turns, so as to ensure normal business operation while attending to the family and personal health and safety of the employees of the Group.

Asset Management and Direct Investment

The asset management and direct investment segment provided asset management services, direct investments in stocks, bonds, funds, derivative instruments and other financial products and structured finance. Under the austere circumstances in the first half of 2020, the Group adopted a cautious approach to review its investment portfolio, strengthened various risk management and control measures such as those for market risks and credit risks, reviewed the operation of counterparties and the value of collaterals on a continuous basis, formulated corresponding risk prevention measures and enhanced post-investment management. Meanwhile, throughout the same 2020 1H Period, the Group proactively explored innovative business for

non-performing assets with a focus on special opportunity investment funds, providing ancillary asset management service complementary to the Group's core businesses. For the 2020 1H Period, the segment revenue and investment losses was approximately HK\$98,439,000 as compared to a segment revenue and investment gains of approximately HK\$1,043,898,000 for the 2019 1H Period. The decrease in investment gains was mainly due to the increase in net losses on financial assets at fair value through profit or loss. The segment result was a loss of approximately HK\$93,429,000 for the 2020 1H Period as compared to a profit of approximately HK\$1,016,788,000 for the 2019 1H Period.

Securities

Securities business segment included provision of brokerage services, margin financing and stocks, futures and options trading services. In the first half of 2020, the Group addressed effectively the adverse impact caused by the COVID-19 pandemic on the expansion of the securities business, with the Group continuing to foster compliant business operation, seizing the opportunities in the active trading market, and making greater marketing efforts, hence achieving steady improvement in the operating results of the securities business. For the 2020 1H Period, the revenue and other gains from the securities segment was approximately HK\$114,605,000, as compared to approximately HK\$222,744,000 for the 2019 1H Period. The segment result amounted to a loss of approximately HK\$10,221,000 for the 2020 1H Period, as compared to a loss of approximately HK\$462,370,000 for the 2019 1H Period.

Corporate Finance

The corporate finance segment was devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In the first half of 2020, the Group conducted the sale of USD bond to clients through multiple channels and promoted steady business development. For the 2020 1H Period, revenue from the corporate finance segment amounted to approximately HK\$235,000 as compared to revenue of approximately HK\$13,261,000 for the 2019 1H Period; the segment result for the 2020 1H Period was a loss of approximately HK\$1,520,000 as compared to a gain of approximately HK\$4,706,000 for the 2019 1H Period.

Prospects

In the second half of 2020, as the COVID-19 pandemic sustains, many economies have been maintaining lockdown measures in a bid to contain the outbreak, causing tremendous uncertainties to the world economy. It was expected as of the date of the 2020 Interim Results Announcement that the PRC's economy will continue to face considerable challenges. Nevertheless, with the pandemic receding in the PRC, macro policies starting to take effect and market expectations improving, the unleashing of suppressed consumption and investment demand has been accelerating, thereby expediting the recovery of the PRC's economy. It was also expected that the PRC's economy is to be the first among the world's economies to recoup, which will serve as a strong engine for the recovery of the world economy. Following the third

wave of outbreak, Hong Kong's severely-hit economy even aggravated. According to the latest estimate of Morgan Stanley prior to the publication of the 2020 Interim Results Announcement, the annual GDP of Hong Kong may contract by 9.5% in the worst scenario and may take over two years to revert to the level before the outbreak. After the promulgation and implementation of the Hong Kong national security law, it was further expected that the prosperity and stability of Hong Kong can be ensured, laying solid foundation for economic recovery. Driven by the opportunities arising from the recovery of the PRC's economy, Hong Kong's economy is expected to embrace development opportunities in the long term.

In face of pressure on multiple fronts, following the 2020 1H Period, the Group intended to closely monitor global developments, national policies and market dynamics, seeking to conquer difficulties and hardships and seize hold of strategic opportunities. The Group also intended to realise transformational development in adherence to the general principle of making steady progress with an emphasis on quality improvement and efficiency enhancement. On 3 July 2020, the Group put forward a proposal of privatisation to HRIV, which, if approved, will create a unified platform. Such combination is conducive to the Company by achieving economies of scale and cost savings, facilitating steady growth of the license business of the Group. Under the strong support of China Huarong, the unified platform will enable more efficient and focused use of the network and resources of the China Huarong brand. HRIV's rich client resources could also effectively strengthen the Company's businesses. After the combination, the Group will be more well-positioned to implement the development strategies of "investment + corporate finance" and "license + core business", thus enhancing the long-term potential of the Group and realising long-term growth.

Financial Review

Capital Structure

As at 30 June 2020, the total number of issued Shares of the Company (with the par value of HK\$0.001 each) was 3,588,466,011 and the total equity attributable to Shareholders was approximately HK\$2,336,781,000 as compared to approximately HK\$1,329,097,000 as at 31 December 2019, representing an increase of approximately 75.8%.

Liquidity and Financial Resources

Over the 2020 1H Period, the Group reviewed its liquidity position regularly and managed liquidity and financial resources actively according to the changes in economic environment and business development needs. As at 30 June 2020, the Group had total cash and cash equivalents amounting to approximately HK\$1,571,377,000 (as compared to approximately HK\$3,069,944,000 as at 31 December 2019), excluding client funds that were kept in separate designated bank accounts of approximately HK\$411,822,000 (as compared to HK\$389,202,000 as at 31 December 2019). The Group's gearing ratio as at 30 June 2020 was 346.1% as compared to 879.6% as at 31 December 2019, being calculated as borrowings over the Group's shareholders' equity. The decrease in gearing ratio was attributable to the decrease in the

Group's loans in the 2020 1H Period. As at 30 June 2020, the Group obtained shareholder loans in an aggregate principal amount of approximately US\$685,115,000 (equivalent to approximately HK\$5,270,931,000) (31 December 2019: approximately US\$1,161,685,000 (equivalent to approximately HK\$9,048,335,000)) from CHIH to support the business of the Group.

As at 30 June 2020, the Group had undrawn bank facilities of approximately HK\$1,626,000,000 (31 December 2019: approximately HK\$1,625,500,000) and the Group utilised approximately HK\$2,819,030,000 (31 December 2019: approximately HK\$2,642,528,000) of the relevant banking facilities.

As at 30 June 2020, the Group had no bank borrowings in breach of any financial conditions or cross-default clauses.

For the subsidiaries of the Company licensed by the SFC, over the first half of 2020, the Group ensured each of such subsidiaries maintained a liquidity level adequate to support the level of regulated activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the 2020 1H Period, all the licensed subsidiaries of the Company complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 30 June 2020, the Group had not pledged any assets (31 December 2019: nil) to secure the bank loan facilities of the Group.

Foreign Exchange Exposures

During the 2020 1H Period, the Group's principal operations in Hong Kong and overseas were transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC were transacted and recorded in Renminbi. The Group was not exposed to material foreign exchange risks because Hong Kong dollars were pegged to United States dollars and the revenue from the PRC operations only represented a small fraction of the Group's total revenue. Other foreign currency exposure was relatively minimal when compared to the total assets and liabilities of the Group. As a result, as of the date of the 2020 Interim Results Announcement the Group considered that its foreign exchange risk exposure was manageable and following the 2020 1H Period the Group intended to closely monitor the risk exposure from time to time.

Contingent Liabilities

Regarding the aforementioned alleged claims against HISL in relation to which the plaintiff and HISL has reached a settlement in respect with such proceeding and the consent order made by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region became effective on 9 March 2020. The Directors considered that it was not probable

that an outflow of resources embodying economic benefits would be required to settle these alleged claims as at 30 June 2020 and 31 December 2019.

Save as disclosed above, the Group had no other material contingent liabilities at 30 June 2020 and 31 December 2019.

Significant Securities Investment

The Group was primarily engaged in the provision of financial services, including but not limited to asset management and direct investment, securities and corporate finance services. During the 2020 1H Period, the Group held securities investments such as listed preference shares, listed equity investments, listed bonds and unlisted fund investments. As at 30 June 2020, the Group did not hold any significant investments which constitute 5% or more of its total assets.

Interim Dividend

The Board did not recommend the payment of any interim dividend for the 2020 1H Period (2019 1H Period: nil).

Employee and Remuneration Policy

As at 30 June 2020, the Group employed a total of 54 employees (31 December 2019: 71 employees). The Group's staff recruitment and promotion in the first half of 2020 were primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which were formulated by reference to the market situation, were competitive and performance based.

Events After the End of the 2020 1H Period

After the end of the 2020 1H Period, the Group has had the following subsequent events:

- (1) On 3 July 2020, the Board requested the HRIV Board to put forward the Proposal.
- (2) The Company entered into a supplemental facility letter with a bank to renew an uncommitted revolving credit facilities in an aggregate principal amount of up to US\$40,000,000. For further details, please refer to the announcement of the Company dated 11 August 2020.
- (3) Mr. Yu Meng resigned as Chairman of the Board and an executive Director with effect from 24 August 2020; and Mr. Yang Rungui was appointed as Chairman of the Board and an executive Director on 24 August 2020. For further details, please refer to the announcement of the Company dated 24 August 2020.

1. FINANCIAL INFORMATION OF THE HRIV GROUP

The audited consolidated financial statements of the HRIV Group for each of the three years ended 31 December 2019 (the “**HRIV Audited Financial Statements**”) and the unaudited consolidated financial statements of the HRIV Group for the six months ended 30 June 2020 (the “**HRIV Interim Financial Statements**”) are disclosed in the following documents which have been published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and HRIV (<http://www.hriv.com.hk>), and are accessible via the following hyperlinks:

- the annual report of HRIV for the year ended 31 December 2017 (the “**HRIV 2017 Annual Report**”) published on 19 April 2018 (pages 58 to 133):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0419/ltn20180419235.pdf>

http://bmgir.com/MjI3Nw==/en/imgs/report/20180419164501_23406500_en.pdf

- the annual report of HRIV for the year ended 31 December 2018 (the “**HRIV 2018 Annual Report**”) published on 30 April 2019 (pages 71 to 173):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0430/ltn20190430179.pdf>

<http://bmgir.com/MjI3Nw==/en/imgs/report/2018annualen.pdf>

- the annual report of HRIV for the year ended 31 December 2019 (the “**HRIV 2019 Annual Report**”) published on 29 April 2020 (pages 66 to 169):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0429/2020042900037.pdf>

<https://moebius.asia/Documents/company/reports/listedco/listconews/sehk/2020/0429/2020042900037.pdf>

- the interim results announcement of HRIV for the six months ended 30 June 2020 (the “**HRIV 2020 Interim Results Announcement**”) published on 26 August 2020 (pages 2 to 22):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0826/2020082601403.pdf>

<https://moebius.asia/Documents/company/reports/listedco/listconews/sehk/2020/0826/2020082601403.pdf>

The HRIV Audited Financial Statements and the HRIV Interim Financial Statements (but not any other part of the HRIV 2017 Annual Report, the HRIV 2018 Annual Report, the HRIV 2019 Annual Report and the HRIV 2020 Interim Results Announcement) are incorporated by reference into this circular and form part of this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE HRIV GROUP

Set out below is the management discussion and analysis of the HRIV Group for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 extracted from the HRIV 2017 Annual Report, the HRIV 2018 Annual Report, the HRIV 2019 Annual Report and the HRIV 2020 Interim Results Announcement respectively. Unless otherwise defined in this circular or the context otherwise requires, capitalised terms used in this Appendix IV shall have the same meanings as those ascribed in the abovementioned annual reports and interim results announcement of HRIV, as the case may be.

1. FOR THE YEAR ENDED 31 DECEMBER 2017**BUSINESS AND FINANCIAL REVIEW**

During the year ended 31 December 2017 (the “**2017 Year**”), China Huarong, through its indirect wholly-owned subsidiary, Right Select, increased its shareholding in HRIV to 926,042,000 HRIV Shares, representing approximately 50.99% (from approximately 27.99%) of the entire issued share capital of HRIV and became a controlling shareholder of HRIV. Based on the then existing construction related business, HRIV had actively adopted the strategy of diversified business operation since September 2016. As at the date of the HRIV 2017 Annual Report, the HRIV Group was principally engaged in the following business segments: (i) direct investment; (ii) financial services and others; and (iii) foundation and substructure construction services.

As HRIV changed its financial year end date from 31 March to 31 December, commencing from the financial period ended 31 December 2016, the financial statements of HRIV presented in this section headed “1. For the Year Ended 31 December 2017” are those for the whole year ended 31 December 2017 with comparatives based on those for the nine months ended 31 December 2016 (the “**2016 Corresponding Period**”).

As at 31 December 2017, the total assets of the HRIV Group amounted to approximately HK\$13,907 million, representing an increase of approximately 285.66% compared with approximately HK\$3,606 million as at 31 December 2016, which was mainly due to the drastic increase in relevant segments’ total assets followed by the HRIV Group’s rapid development in 2017 in the business of direct investment and financial services and others.

During the 2017 Year when the HRIV Group entered accelerating transformation, the revenue of the HRIV Group went up to approximately HK\$910 million, representing an increase of approximately 40.00% compared to approximately HK\$650 million for the 2016 Corresponding Period. In addition, during the 2017 Year, the net unrealised gain on financial assets and the net realised gain on disposal of investment contributed approximately HK\$162 million and approximately HK\$105 million (the 2016 Corresponding Period: approximately HK\$59 million and approximately HK\$8 million) to the HRIV Group, respectively. The profit of the HRIV Group grew rapidly during the 2017 Year, the amount of which was up to

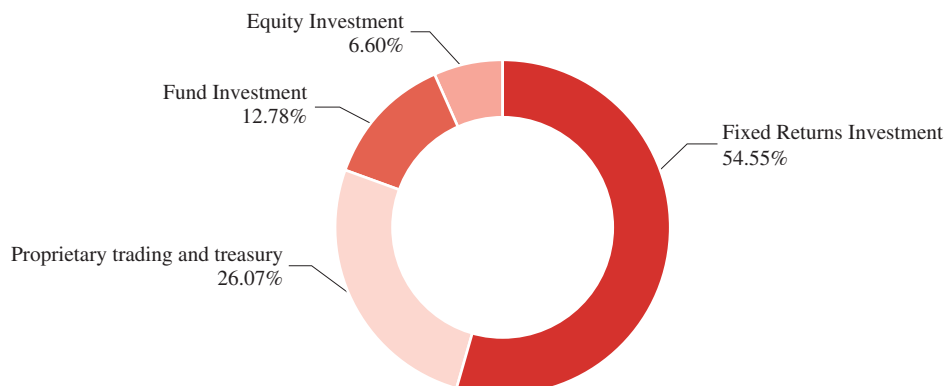
approximately HK\$270 million, representing an increase of approximately HK\$114 million, or approximately 73.08%, compared to approximately HK\$156 million for the 2016 Corresponding Period.

Following the 2017 Year, the HRIV Group intended to combine the outstanding talents of HRIV with the international financial platform of Hong Kong to expand its customer group in both domestic and overseas markets. The HRIV Group also intended to look for different investment opportunities all over the world in order to continue with its rapid yet steady development.

Direct Investment

The HRIV Group commenced the direct investment business since September 2016, and mainly invested in equities, bonds, funds, derivative instruments and other financial products. As at 31 December 2017, the segment assets of direct investment business reached approximately HK\$10,063 million (31 December 2016: approximately HK\$1,727 million), representing an increase of approximately 482.69% as compared with that of 31 December 2016. During the 2017 Year, segment revenues of approximately HK\$229 million (the 2016 Corresponding Period: approximately HK\$93 million) and segment profit of approximately HK\$213 million (the 2016 Corresponding Period: approximately HK\$158 million) were recorded, representing an increase of approximately 146.24% and 34.81%, respectively as compared with that of the 2016 Corresponding Period, which accounted for approximately 48.62% (the 2016 Corresponding Period: approximately 54.80%) of the total segment profit of the HRIV Group.

During the 2017 Year, the direct investment business of the HRIV Group was divided into four major categories, namely fixed returns investment, fund investment, equity investment and proprietary trading and treasury. Fixed returns investment mainly represented investment in private bonds, loans, convertible bonds and fixed income funds, which in the 2017 Year accounted for approximately 54.55% of the total investment assets. Such investment provided HRIV with stable income and cash flow. The fund investment mainly represented investment in various funds investing in equity, which in the 2017 Year accounted for approximately 12.78% of the total investment assets. Equity investment accounted for approximately 6.60% of the total investment assets in the 2017 Year, mainly comprising shares of listed companies and equity investment of unlisted companies with strong potential. The proprietary trading and treasury accounted for approximately 26.07% of the total investment assets in the 2017 Year, which mainly invested in global bonds and conducted liquidity management and foreign exchange risk management for the HRIV Group through bond market, financing arrangement with banks and other financial instruments. As of the date of the HRIV 2017 Annual Report, the HRIV Group believed that while the stable income of HRIV was guaranteed by fixed returns investment, fund and equity investment could bring potential and remarkable profit to the HRIV Group.

Direct Investment Assets (by Investment Categories)**Financial Services and Others**

The HRIV Group commenced financial services and other related services in September 2016, which mainly included provision of finance lease services, business consulting services and other related services. The HRIV Group has set up a professional financial leasing company with relevant licences in the PRC, which in the 2017 Year focused on providing services to the basic industries which conformed to the PRC's industrial policy and economic development trend at the time, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquefied natural gas, to obtain constant and stable rental income. In addition, based on the HRIV Group's domestic and overseas business network and the experience of investing in various industries, over the 2017 Year, the HRIV Group also provided consulting services on macro-economic, industry analysis, financial product design and other aspects for customers.

As at 31 December 2017, the segment assets of the business of the financial services and others amounted to approximately HK\$1,983 million (31 December 2016: HK\$62 million). During the 2017 Year, the segment income of approximately HK\$377 million (the 2016 Corresponding Period: HK\$87 million) and the segment profit of approximately HK\$274 million (the 2016 Corresponding Period: HK\$84 million) were recorded, representing an increase of approximately 333.33% and 226.19% as compared with that of the 2016 Corresponding Period, which accounted for approximately 62.71% (the 2016 Corresponding Period: 29.02%) of the HRIV Group's total segment profit.

Significant Investments

As at 31 December 2017, the HRIV Group's investment portfolio mainly comprised the following financial assets:

Investment	Stock code	Carrying amount (HK\$'000)	Percentage of portfolio	Fair value change during the Year (HK\$'000)	Date of relevant announcements
Interest in Edge Venture Partners L.P. (Limited Partnership)	N/A	614,811	5.2%	(2,722)	25 October 2016 1 December 2016
Notes issued by Brighten Path Limited	N/A	423,000	3.6%	–	26 June 2017
Notes issued by Qingdao Zhongrun Hotel Investment Co., Ltd.	N/A	235,546	2.0%	–	31 May 2017
Finance leasing arrangement with Jiangsu Huifeng Wood Co., Ltd.	N/A	215,731	1.8%	–	10 May 2017
Interest in Tianli Private Debt Fund L.P. (Limited Partnership)	N/A	214,829	1.8%	3,313	6 January 2017
Convertible bonds issued by Carnival Group International Holdings Limited	00996.hk	122,441	1.0%	(5,586)	13 September 2016
Net investment in Cogobuy Group	00400.hk	119,886	1.0%	(16,295)	18 November 2016
Finance leasing arrangement with Lhasa Fengdian Photovoltaic Power Generation Co., Ltd.	N/A	174,304	1.5%	–	9 June 2017
Shares in Altonics Holding Limited	00833.hk	104,936	0.9%	40,503	31 October 2016
Finance leasing arrangement with Zhangye Pingshan Lake Wind Power Co., Ltd	N/A	94,218	0.8%	–	4 January 2017
Notes issued by Master Glory Group Limited	00275.hk	398,500	3.4%	–	24 November 2016 23 November 2017

Investment	Stock code	Carrying amount (HK\$'000)	Percentage of portfolio	Fair value change during the Year (HK\$'000)	Date of relevant announcements
Notes and warrants issued by Zhuguang Holdings Group Company Limited	01176.hk	91,512	0.8%	560	23 September 2016
Interest in Shenzhen China Merchant Huarong Investment Consultancy (Limited Partnership)	N/A	95,704	0.8%	–	19 October 2016
Finance leasing arrangement with Shenzhen Yestock Automobile Service Co., Ltd.	N/A	206,857	1.8%	–	16 March 2017 9 June 2017 21 December 2017
Interest in Leadingchina Creative Fund L.P. (Limited Partnership)	N/A	48,525	0.4%	(1,475)	5 January 2017
Finance leasing arrangement with Heze Shenzhou Environmental Services Co., Ltd.	N/A	129,550	1.2%	–	20 July 2017
Finance leasing arrangement with Anhui Changfeng Cable Group Co., Ltd.	N/A	107,970	0.9%	–	1 August 2017
Subscription of (1) notes; and (2) interest in a Cayman fund	N/A	210,000	1.8%	–	2 August 2017
Investment in Chelsea Manifest Fund	N/A	500,280	4.2%	–	14 August 2017
Finance leasing arrangement with Yanan Xinwoda LNG Co., Ltd.	N/A	395,177	3.4%	–	17 August 2017
Finance leasing arrangement with Youhe Daotong Aviation Co., Ltd.	N/A	448,496	3.8%	–	21 August 2017
Secured convertible bonds issued by Freeman Fintech Corporation Limited	00279.hk	478,000	4.2%	41,000	24 August 2017
Loan arrangement with Qingdao Jiayaohua Real Estate Co., Ltd.	N/A	800,857	6.8%	–	24 August 2017 30 August 2017 28 September 2017

Investment	Stock code	Carrying amount (HK\$'000)	Percentage of portfolio	Fair value change during the Year (HK\$'000)	Date of relevant announcements
Bonds issued by Intrend Ventures Limited	N/A	450,000	3.8%	–	30 August 2017
Finance leasing arrangement with Lihua Energy Co., Ltd.	N/A	73,431	0.6%	–	15 September 2017
Provision of financial assistance to an independent third party	N/A	492,500	4.2%	–	19 September 2017
Class B shares issued by All-Stars Fund	N/A	156,225	1.3%	–	29 September 2017
Notes issued by an independent third party	N/A	486,991	4.1%	–	18 October 2017
(1) Acquisition of Sale CDIs; (2) Subscription of Subscription CDIs; and (3) Subscription of Convertible Notes	ASX:RTE	165,191	1.4%	49,760	9 November 2017
Notes issued by Mercury Union Limited	N/A	234,506	2.0%	–	21 November 2017
Entered into an Asset Management Agreement with China Merchants Wealth Asset Management Co. Ltd.	002142	346,927	2.9%	–	8 December 2017
Provision of financial assistance to an independent third party	N/A	344,750	2.9%	–	11 December 2017
Finance leasing arrangement with Anhui Pacific Cable Group Co., Ltd.	N/A	27,088	0.2%	–	27 December 2017
Bonds issued by Superactive Group Company Limited	0176.hk	300,000	2.5%	–	29 December 2017
Others		2,478,719	21.0%	55,621	
		<u>11,787,458</u>	<u>100%</u>	<u>164,679</u>	

On 21 June 2017, the HRIV Group entered into a deed of sale and purchase with Sino Ally Holdings Limited (“**Sino Ally**”), pursuant to which the HRIV Group agreed to sell and Sino Ally agreed to purchase the limited partnership interest of US\$40.0 million (equivalent to approximately HK\$312.0 million) in Jumbo Sheen Fund No. 1 LP at a consideration of US\$47.85 million (equivalent to approximately HK\$373.2 million). There was a gain of US\$7.85 million (equivalent to approximately HK\$61.2 million) from such disposal. The transaction constituted a discloseable transaction for HRIV. Details of the transaction are disclosed in HRIV’s announcement dated 21 June 2017.

Foundation and Substructure Construction Services

The construction contract income of foundation and substructure construction services was recognised based on stage of completion. Stage of completion was established by reference to the construction works certified by the customers of the HRIV Group. The portion of total construction contract amount that was certified to have been completed in a period was recognised as revenue from foundation and substructure construction services in the respective period.

As at 31 December 2017, the segment assets of foundation and substructure construction services amounted to approximately HK\$231 million (31 December 2016: approximately HK\$347 million). During the 2017 Year, the segment income of approximately HK\$304 million (the 2016 Corresponding Period: approximately HK\$470 million) and the segment loss of approximately HK\$50 million (the 2016 Corresponding Period: segment profit of approximately HK\$47 million) were recorded. The loss during the 2017 Year was mainly due to the keen peer competition and a steep drop of the total amount of projects entered into. Following the 2017 Year, the HRIV Group intended to continue to pay attention to the development of relevant foundation and substructure construction services, and research on its development trend to win long-term benefit for the HRIV Group.

OUTLOOK

In 2017, China Huarong became the indirect controlling shareholder of the HRIV Group. Looking into 2018 at the end of 2017, on the basis of steady development of then existing businesses, it was expected that the HRIV Group would continue to expand its business varieties and be innovative to business models by actively promoting the combination of industry and finance, as well as the investment and finance, and adhering to the development concept of “finance + industry” to provide enterprises with comprehensive financial services.

Fully leveraging the advantages of the brand, financial resources, synergy and comprehensive financial services of China Huarong, as of the date of the HRIV 2017 Annual Report, the HRIV Group was able to lay solid foundation in Hong Kong, Macau and Taiwan, and at the same time, to serve the Greater China. Based on the industries of environmental protection, clean energy, education and health care supported and encouraged by the state at the time, following the 2017 Year, the HRIV Group intended to seek and explore value-based

enterprises with great strength and excellent quality in such industries to establish a long-term and stable strategic cooperative partnership and to gradually form the business model of close combination of finance and industry and common development, and also continue to coincide with the development strategy of the state, “One-Belt-One-Road Initiative”, and coincide with the construction of Guangdong, Hong Kong, and Macau Greater Bay Area to strengthen the integration of resources among the intra-group companies, complement each other’s advantages, keep constant synergetic development, and strengthen international business.

Following the 2017 Year, while expanding its business, the HRIV Group also intended to continue to strengthen its corporate governance and risk prevention and control mechanisms to improve the overall system management and achieve the rapid and steady growth and development of the HRIV Group.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the HRIV Group as at 31 December 2017 were approximately HK\$11,047 million (31 December 2016: HK\$2,736 million). As at 31 December 2017, the secured interest borrowings were approximately HK\$2,300 million. The secured borrowings consisted of (a) bank loans of HK\$813 million, secured by a deposit of which the carrying amount was US\$122 million (equivalent to HK\$954 million); (b) bank loan of HK\$50 million, secured by a finance lease receivable; and (c) bank borrowings and bank overdrafts of HK\$1,437 million, secured by debt investments of which the carrying amounts were equivalent to HK\$2,243 million.

As at 31 December 2017, the finance leases were repayable within 4 years (31 December 2016: within 4 years). Finance leases facilities were secured by the HRIV Group’s machinery and motor vehicles with an aggregated net book value of approximately HK\$19 million and HK\$3 million as at 31 December 2017 (31 December 2016: HK\$18 million and HK\$4 million) respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the HRIV Group’s bank balances and cash (including deposits in other financial institutions) were approximately HK\$1,653 million (31 December 2016: HK\$1,483 million). During the 2017 Year, the HRIV Group managed its capital structure to finance its overall operation and growth by using different sources of funds: the HRIV Group’s sources of fund include proceeds from issuing of new perpetual capital instruments and placing of new shares, loans from direct and indirect shareholders, loans from banks and internal resources. The gearing ratio of the HRIV Group as at 31 December 2017 (defined as total interest-bearing liabilities divided by the HRIV Group’s total equity) was approximately 4.7 (31 December 2016: 4.9).

TREASURY POLICY

The HRIV Group had adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 2017 Year: The HRIV Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the HRIV Board closely monitored the HRIV Group's liquidity position and implemented in-house treasury measures to ensure that the liquidity structure of the HRIV Group's assets, liabilities and other commitments could meet its funding requirements from time to time.

Over the 2017 Year, the HRIV Group's operations were mainly denominated in US Dollars, Hong Kong Dollars and RMB. As the US Dollars were linked to the Hong Kong Dollars, the HRIV Group expected that there was no significant change in the exchange rate of United States Dollars against Hong Kong Dollars. During the 2017 Year, the HRIV Group used the financial instruments in the market to hedge its exposure to foreign exchange risk arising from investment through the proprietary trading and treasury function of the HRIV Group in respect of the foreign exchange risk of some investment. Following the 2017 Year, the HRIV Group intended to keep monitoring its exposure to foreign exchange fluctuations carefully and might introduce appropriate hedging measures if necessary.

CAPITAL COMMITMENTS

The HRIV Group had no material capital commitments as at 31 December 2017 (31 December 2016: Nil).

CONTINGENT LIABILITIES

The HRIV Group had no material contingent liabilities as at 31 December 2017 (31 December 2016: Nil).

EVENTS AFTER THE 2017 YEAR

On 16 January 2018, the HRIV Group entered into a subscription agreement with All-Stars General Partner I Limited, pursuant to which the HRIV Group agreed to subscribe for the limited partnership interest of All-Stars Investment Private Partners Fund L.P. and committed to contribute US\$30 million (equivalent to approximately HK\$234 million) into the abovementioned fund. The transaction constituted a discloseable transaction for HRIV. Details of the transaction are disclosed in HRIV's announcement dated 16 January 2018. As at the date of the HRIV 2017 Annual Report, the HRIV Group had contributed approximately US\$3 million in terms of the commitment.

IMPORTANT EVENTS**Increase in shareholding by Right Select, an indirect subsidiary of China Huarong**

On 6 January 2017, the HRIV Group entered into a subscription agreement with its substantial shareholder, Right Select, where the HRIV Group conditionally agreed to allot and issue, and Right Select conditionally agreed to subscribe for 580,000,000 HRIV Shares in cash at a subscription price of HK\$0.40 per HRIV Share. The subscription was completed on 28 February 2017. Immediately after the subscription, Right Select went through the general offer process as required under the Takeover Code, and acquired 42,000 HRIV Shares from the public. As at the date of the HRIV 2017 Annual Report, Right Select was interested in a total of 926,042,000 HRIV Shares, representing approximately 50.99% of the entire issued share capital of HRIV at the time and became the controlling shareholder of HRIV. The net proceeds of the subscription were approximately HK\$230.81 million and the net price of each subscription HRIV Share was approximately HK\$0.398. The actual use of proceeds from the subscription was used as intended, of which 20% of the net proceeds were used as working capital of the HRIV Group and the remaining net proceeds were used for financing projects of the HRIV Group involving direct investment, financial services and others. Please refer to HRIV's announcements dated 12 January 2017 and 28 February 2017 for further information.

EMPLOYEES INFORMATION

As at 31 December 2017, the HRIV Group had 248 staff (31 December 2016: 258). The total staff costs incurred by the HRIV Group for the 2017 Year were approximately HK\$115,762,000 (31 December 2016: HK\$132,849,000).

In the 2017 Year, the salary and benefit levels of the employees of the HRIV Group were competitive: As of the date of the HRIV 2017 Annual Report, the HRIV Group was expanding its direct investment and financial services businesses. Competitive salary could attract professional talents to commit to the HRIV Group's financial and investment business. Individual performance of the employees of the HRIV Group was rewarded through the HRIV Group's salary and bonus system. In addition, the HRIV Group provided adequate job training to employees in order to equip them with practical knowledge and skills to tackle various situations and challenges encountered in a diverse range of working sites.

FINAL DIVIDEND

The HRIV Board did not recommend payment of final dividend to HRIV Shareholders for the 2017 Year (31 December 2016: Nil).

2. FOR THE YEAR ENDED 31 DECEMBER 2018**BUSINESS AND FINANCIAL REVIEW****Strengthen the business foundation and maintain stable development**

In 2018, facing the fluctuation in the global financial market and the uncertainty of American policies on global economy, the HRIV Group planned to strengthen its business foundation and maintain stable development, by way of enhancing the quality of its investment portfolios and pathing the way for future development. As at the date of the HRIV 2018 Annual Report, the HRIV Group was primarily engaged in the following business segments: (i) direct investment; (ii) financial services and others; and (iii) foundation and substructure construction services.

During the year ended 31 December 2018 (the “**2018 Year**”), the HRIV Group’s revenue recorded a strong growth to approximately HK\$1,496 million, representing an increase of approximately 64% as compared to approximately HK\$910 million for the 2017 Year. Direct investment business segment recorded a revenue of approximately HK\$608 million in the 2018 Year, representing an increase of approximately 165% as compared to approximately HK\$229 million in the 2017 Year. The revenue of financial services and other business segments was approximately HK\$303 million during the 2018 Year, representing a decrease of approximately 19% as compared to approximately HK\$377 million in the 2017 Year. In addition, the revenue of foundation and substructure construction services segment was approximately HK\$585 million during the 2018 Year, representing an increase of approximately 92% as compared to approximately HK\$304 million in the 2017 Year.

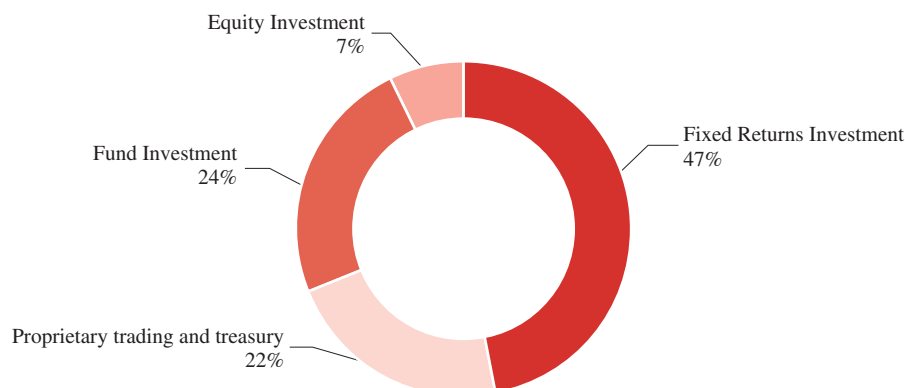
During the 2018 Year, the HRIV Group recorded profit of approximately HK\$72 million, representing decrease of approximately 73% as compared to approximately HK\$270 million in the 2017 Year. The decrease in profit for the 2018 Year was mainly due to unrealised loss on financial assets. During the 2018 Year, the HRIV Group’s losses from unrealised loss on financial assets was approximately HK\$172 million (the 2017 Year: gain of HK\$162 million). The relevant losses were mainly due to the decrease in fair value of investment products related to Hong Kong listed stocks. In 2018, the diversified investment portfolios provided a stable income and growth in profit to the HRIV Group, and reduced the negative impact to the HRIV Group caused by the decrease in valuations of part of financial assets held by the HRIV Group which was affected by the wide capital market fluctuations. As of the date of the HRIV 2018 Annual Report, the HRIV Group believed the short-term market volatility and the effects of change in fair value of a few of individual investments would cause no material impact on the long-term development of the HRIV Group.

Direct Investment

In terms of direct investment business, over the 2018 Year, the HRIV Group mainly invested in equities, bonds, funds, derivative instruments and other financial products. As at 31 December 2018, the segment assets of direct investment business was approximately HK\$6,511 million (31 December 2017: HK\$10,063 million), representing a decrease of approximately 35% as compared with that of 31 December 2017. During the 2018 Year, segment revenues of approximately HK\$608 million (the 2017 Year: HK\$229 million) and segment profit of approximately HK\$81 million (the 2017 Year: segment profit of approximately HK\$213 million) were recorded.

During the 2018 Year, the direct investment business of the HRIV Group was divided into four major categories, namely fixed returns investments, fund investments, equity investments and proprietary trading and treasury. Fixed returns investments mainly represented investment in private bonds, loans, convertible bonds and fixed income funds, which in the 2018 Year accounted for approximately 47% of the total investment assets. Such investment provided HRIV with stable income and cash flow. The fund investment mainly represented investment in various funds investing in equity, which in the 2018 Year accounted for approximately 24% of the total investment assets. Equity investments accounted for approximately 7% of the total investment assets in the 2018 Year, mainly comprising shares of listed companies and equity investment of unlisted companies with strong potential. The proprietary trading and treasury accounted for approximately 22% of the total investment assets in the 2018 Year, which mainly invested in global bonds and conducted liquidity management and foreign exchange risk management for the HRIV Group through bond market, financing arrangement with banks and other financial instruments. As of the date of the HRIV 2018 Annual Report, the HRIV Group believed that while the stable income of HRIV was guaranteed by fixed returns investment, fund and equity investments could bring potential and remarkable profit to the HRIV Group.

Direct Investment Assets (by Investment Categories)



Financial Services and Others

Financial services and other related services mainly included provision of finance lease services, business consulting services, and financing services and other related services. The HRIV Group has set up a professional financial leasing company with relevant licences in the PRC which in the 2018 Year focused on providing services to the basic industries which conformed to the PRC's industrial policy and economic development trend at the time, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquified natural gas, to obtain constant and stable rental income. In addition, based on the HRIV Group's domestic and overseas business network and the experience of investing in various industries, over the 2018 Year, the HRIV Group also provided consulting and financing services on macro-economic, industry analysis, financial product design and other aspects for customers.

As at 31 December 2018, the segment assets of the business of the financial services and others amounted to approximately HK\$1,701 million (31 December 2017: HK\$1,983 million). During the 2018 Year, the segment revenue of approximately HK\$303 million (the 2017 Year: HK\$377 million) and the segment profit of approximately HK\$70 million (the 2017 Year: HK\$274 million) were recorded, representing a decrease of approximately 20% and 74% as compared with that of the 2017 Year.

Significant Investments

As at 31 December 2018, the HRIV Group's investment portfolio mainly comprised the following financial assets:

Equities, funds and convertible bond investments

Investment	Investment cost HK\$'000	Percentage of shares/units held as at 31.12.2018	Principal business of the investee	Performance during the year						Fair value to assets ratio	Date of relevant announcements
				Fair value at 31.12.2018 HK\$'000	Fair value at 31.12.2017 HK\$'000	Fair Movement during the year HK\$'000	Changes in fair value HK\$'000	Dividend income HK\$'000	Gain or loss on disposal HK\$'000		
Convertible bonds issued by Carnival Group International Holdings Limited	123,313	N/A	Real estate	121,000	122,441	(1,441)	(1,221)	-	-	1.2%	13 September 2016 16 July 2018 16 January 2019
Interest in Shenzhen China Merchant Huarong Investment Consultancy (Limited Partnership)	91,303	24.2%	N/A	91,303	95,704	(4,401)	-	-	-	0.9%	19 October 2016
Interest in Edge Venture Partners L.P. (Limited Partnership)	618,800	100.0%	N/A	623,942	614,811	9,131	7,873	25,916	-	6.0%	25 October 2016 1 December 2016
Shares in Altonics Holding Limited	26,762	4.4%	Manufacturing	48,750	104,936	(56,186)	(56,186)	2,066	-	0.5%	31 October 2016
Net Investment in Cogobuy Group	117,000	0.6%	E-commerce and internet services	119,960	119,886	74	74	-	-	1.2%	18 November 2016
Interest in Leadingchina Creative Fund L.P. (Limited Partnership)	50,000	98.0%	N/A	45,038	48,525	(3,487)	(3,487)	-	-	0.4%	5 January 2017
Interest in Tianli Private Debt Fund L.P. (Limited Partnership)	196,569	16.7%	N/A	196,741	214,829	(18,088)	(3,149)	15,626	-	1.9%	6 January 2017
Investment in Chelsea Manifest Fund	501,307	100.0%	N/A	506,735	500,280	6,455	5,417	30,242	-	4.9%	14 August 2017

Investment	Investment cost HK\$'000	Percentage of shares/units held as at 31.12.2018	Principal business of the investee	Performance during the year						Fair value to assets ratio	Date of relevant announcements
				Fair value at 31.12.2018	Fair value at 31.12.2017	Fair Movement during the year	Changes in fair value	Dividend income	Gain or loss on disposal		
				HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Secured convertible bonds issued by Freeman Fintech Corporation Limited	429,197	N/A	Financial services	427,889	478,000	(50,111)	(49,432)	-	-	4.1%	24 August 2017 28 September 2018 23 October 2018 9 November 2018 13 November 2018
Class B shares issued by All-Stars Fund	156,658	25.0%	N/A	153,179	156,225	(3,046)	(3,474)	-	-	1.5%	29 September 2017
Subscription of Convertible Notes and interest of Retech Technology Co. Limited	110,114	12.0%	Education	152,374	165,191	(12,817)	(8,916)	-	-	1.5%	9 November 2017
Entered into an Asset Management Agreement with China Merchants Wealth Asset Management Co. Ltd.	61,185	99.7%	N/A	61,816	346,927	(285,111)	654	28,476	-	0.6%	8 December 2017
Subscription for interest in the All-Stars Investment Private Partners Fund L.P.	150,398	7.8%	N/A	151,633	-	151,633	1,231	-	-	1.5%	16 January 2018

Loan and debt investments

Investment	Principal business of the investee	Performance during the year						Gross Carrying amounts to the total assets ratio	Date of relevant announcements
		Gross Carrying amounts at 31.12.2018	Gross Carrying amounts at 31.12.2017	Movement during the year	Changes in fair value	Dividend income	Gain or loss on disposal		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Notes issued by Zhuguang Holdings Group Company Limited	Real estate	93,353	92,181	1,172	N/A	N/A	–	0.9%	23 September 2016
Notes issued by Master Glory Group Limited	Real estate	400,000	400,000	–	N/A	N/A	–	3.8%	24 November 2016 23 November 2017
Subscription of notes and interest in a Cayman fund	Scientific research and technical services	210,000	210,000	–	N/A	N/A	–	2.0%	2 August 2017
Loan arrangement with Qingdao Jiayaohua Real Estate Co., Ltd.	Real estate	776,079	813,485	(37,406)	N/A	N/A	–	7.4%	24 August 2017 30 August 2017 28 September 2017
Bonds issued by Intrend Ventures Limited	Mining	380,000	450,000	(70,000)	N/A	N/A	–	3.6%	30 August 2017
Notes issued by Mercury Union Limited	Education	234,987	234,506	481	N/A	N/A	–	2.3%	21 November 2017
Provision of financial assistance to an independent third party	Construction	350,000	350,000	–	N/A	N/A	–	3.4%	11 December 2017
Bonds issued by Superactive Group Company Limited	Manufacturing	280,000	300,000	(20,000)	N/A	N/A	–	2.7%	29 December 2017
Notes issued by Brighten Path Limited ^{Note 1}	Entertainment	–	423,000	(423,000)	N/A	N/A	–	0.0%	26 June 2017
Notes issued by Qingdao Zhongrun Hotel Investment Co., Ltd. ^{Note 1}	Real estate	–	239,260	(239,260)	N/A	N/A	–	0.0%	31 May 2017
Provision of financial assistance to an independent third party ^{Note 1}	Real estate	–	500,000	(500,000)	N/A	N/A	–	0.0%	31 May 2017
Notes issued by an independent third party ^{Note 1}	Real estate	–	486,991	(486,991)	N/A	N/A	–	0.0%	18 October 2017

Note 1: The related loan and debt investments were repaid during the year.

Finance lease receivable investments

Investment	Principal business of the investee	Performance during the year						Gross Carrying amounts to the total assets ratio	Date of relevant announcements
		Gross Carrying amounts at 31.12.2018	Gross Carrying amounts at 31.12.2017	Movement during the year	Changes in fair value	Dividend income	Gain or loss on disposal		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Finance leasing arrangement with Zhangye Pingshan Lake Wind Power Co., Ltd	Energy	68,740	95,704	(26,964)	N/A	N/A	–	0.7%	4 January 2017
Finance leasing arrangement with Shenzhen Yestock Automobile Service Co., Ltd.	Leasing	161,540	210,119	(48,579)	N/A	N/A	–	1.6%	16 March 2017 9 June 2017 21 December 2017
Finance leasing arrangement with Jiangsu Huifeng Wood Co., Ltd.	Agriculture, forestry, animal husbandry and fishery	169,357	219,133	(49,776)	N/A	N/A	–	1.6%	10 May 2017
Finance leasing arrangement with Lhasa Fengdian Photovoltaic Power Generation Co., Ltd.	Energy	149,118	177,053	(27,935)	N/A	N/A	–	1.4%	9 June 2017
Finance leasing arrangement with Heze Shenzhou Environmental Services Co., Ltd.	Electricity, heat, gas and water production and supply	106,898	131,593	(24,695)	N/A	N/A	–	1.0%	20 July 2017 13 April 2018
Finance leasing arrangement with Anhui Changfeng Cable Group Co., Ltd.	Manufacturing	88,643	109,673	(21,030)	N/A	N/A	–	0.9%	1 August 2017
Finance leasing arrangement with Yanan Xinwoda LNG Co., Ltd.	Electricity, heat, gas and water production and supply	331,771	401,408	(69,637)	N/A	N/A	–	3.2%	17 August 2017
Finance leasing arrangement with Youhe Daotong Aviation Co., Ltd.	Manufacturing	367,133	455,568	(88,435)	N/A	N/A	–	3.5%	21 August 2017
Finance leasing arrangement with Lihua Energy Co., Ltd.	Energy	63,066	74,589	(11,523)	N/A	N/A	–	0.6%	15 September 2017
Finance leasing arrangement with Anhui Pacific Cable Group Co., Ltd.	Manufacturing	62,909	27,515	35,394	N/A	N/A	–	0.6%	27 December 2017

During the 2018 Year, the major significant investments of the HRIV Group included finance leases, notes, loans, convertible bonds, equity and fund investments. For those investments including finance leases, notes and loans, which are measured at amortised cost, the HRIV Group would generally hold them in the long term for earning stable interest income. For those investments including convertible bonds, equities and funds, which are measured at fair values, the HRIV Group would consider to dispose the relevant investment in the appropriate time based on prevailing market conditions and realise profit for the HRIV Group.

Further details of the above investments are disclosed in notes 20, 21 and 22 to the consolidated financial statements of the HRIV Group for the 2018 Year contained within the HRIV 2018 Annual Report.

Foundation and Substructure Construction Services

The construction contract income of foundation and substructure construction services was recognised based on stage of completion. Stage of completion was established by reference to the construction works certified by the customers of the HRIV Group. The portion of total construction contract amount that was certified to have been completed in a period was recognised as revenue from foundation and substructure construction services in the respective period.

As at 31 December 2018, the segment assets of foundation and substructure construction services amounted to approximately HK\$260 million (31 December 2017: HK\$231 million). During the 2018 Year, the segment revenue of approximately HK\$585 million (the 2017 Year: HK\$304 million) and the segment loss of approximately HK\$23 million (the 2017 Year: segment loss of HK\$50 million) were recorded. Despite the increase in total amount of projects and revenue, the keen peer competition and increase in related costs have led to loss in such segment during the 2018 Year. Following the 2018 Year, the HRIV Group intended to continue to pay attention to the development of relevant foundation and substructure construction services, adjust its strategies and control costs to win long-term benefit for the HRIV Group.

PROSPECTS

As of the date of the HRIV 2018 Annual Report, it was expected that in 2019 the overall national economic conditions in the PRC would become steady and the overall economic policy would be positively executed, and this in turn would offer time and room for HRIV to reduce risks and go ahead with development transformation. Following the 2018 Year, the HRIV Group intended to keep on enhancing the quality of project investment and strengthening the core competence and sustainability while increasing control and management of risks.

Following the 2018 Year, the HRIV Group intended to continue to squarely analyse circumstances, sharpen its advantages, explore diversified competitive modes, while strengthening its foundation and maintaining stable business development to intensify reform, optimise the structures of business, customer, and staff, as well as enhancing its ability to serve the real economy on a going basis. To achieve the development approach of revitalising its principal business and the overall operational strategy of developing “huge non-performing asset”, the HRIV Group also intended to focus on exploring the market segment of non-performing asset as well as motivating relevant innovative financial service businesses to further enrich and optimise the product system of HRIV.

Following the 2018 Year, while engaging in business development, the HRIV Group further intended to continue to promote the construction of quantitative analysis system for market risks to strengthen its ability to implement control and management measures for credit risks. Moreover, the HRIV Group intended to continue to strengthen its corporate governance and risk control mechanism to improve the overall system management and achieve the steady growth and development of the HRIV Group.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the HRIV Group as at 31 December 2018 were approximately HK\$7,005 million (31 December 2017: HK\$11,047 million). As at 31 December 2018, the secured interest borrowings were approximately HK\$307 million (31 December 2017: HK\$2,300 million). The secured borrowings as at 31 December 2018 of RMB268,051,000 (equivalent to approximately HK\$306,610,000) secured by a finance lease receivable.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the HRIV Group’s bank balances and cash (including deposits in other financial institutions) were approximately HK\$879 million (31 December 2017: HK\$1,653 million). During the 2018 Year, the HRIV Group managed its capital structure to finance its overall operation and growth by using different sources of funds: The HRIV Group’s sources of fund included proceeds from issuing of new perpetual capital instruments and placing of new shares, loans from direct and indirect shareholders, loans from banks and internal resources. The

gearing ratio of the HRIV Group as at 31 December 2018 (defined as total interest-bearing liabilities divided by the HRIV Group's total equity) was approximately 3.2 (31 December 2017: 4.7).

TREASURY POLICY

The HRIV Group had adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 2018 Year: The HRIV Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the HRIV Board closely monitored the HRIV Group's liquidity position and implemented in-house treasury measures to ensure that the liquidity structure of the HRIV Group's assets, liabilities and other commitments could meet its funding requirements from time to time.

Over the 2018 Year, the HRIV Group's operations were mainly denominated in United States dollars, Hong Kong dollars and RMB. As the United States dollars were linked to the Hong Kong Dollars, the HRIV Group expected that there was no significant change in the exchange rate of United States Dollars against Hong Kong dollars. During the 2018 Year, the HRIV Group used the financial instruments in the market to hedge its exposure to foreign exchange risk arising from investment through the proprietary trading and treasury function of the HRIV Group in respect of the foreign exchange risk of some investments. Following the 2018 Year, the HRIV Group intended to keep monitoring its exposure to foreign exchange fluctuations closely and might introduce appropriate hedging measures if necessary.

CAPITAL COMMITMENTS

The HRIV Group had no material capital commitments as at 31 December 2018 (31 December 2017: Nil).

CONTINGENT LIABILITY

The HRIV Group has no material contingent liability as at 31 December 2018 (2017: Nil).

IMPORTANT EVENTS OCCURRED SINCE THE END OF THE 2018 YEAR

There were no important events affecting the HRIV Group since the end of the 2018 Year.

EMPLOYEES INFORMATION

As at 31 December 2018, the HRIV Group had 232 staff (31 December 2017: 248). The total staff costs incurred by the HRIV Group for the 2018 Year were approximately HK\$144,365,000 (31 December 2017: HK\$115,762,000).

In the 2018 Year, the salary and benefit levels of the employees of the HRIV Group were competitive: As of the date of the HRIV 2018 Annual Report, the HRIV Group was expanding its direct investments and financial services businesses. Competitive salary could attract professional talents to commit to the HRIV Group's financial and investment business. Individual performance of the employees of the HRIV Group was rewarded through the HRIV Group's salary and bonus system. In addition, the HRIV Group provided adequate on-the-job training to employees in order to equip them with practical knowledge and skills to tackle various situations and challenges encountered in a diverse range of working sites.

FINAL DIVIDEND

The HRIV Board did not recommend payment of final dividend to shareholders of HRIV for the 2018 Year (31 December 2017: Nil).

3. FOR THE YEAR ENDED 31 DECEMBER 2019

BUSINESS AND FINANCIAL REVIEW

Continue to strengthen the business foundation and maintain stable development

In 2019, facing the fluctuation in the global financial market and the uncertainty of American policies on global economy, the HRIV Group strengthened its business foundation according to plans and maintained stable development, by way of enhancing the quality of its investment portfolios and paving the way for future development.

During the year ended 31 December 2019 (the "2019 Year"), the HRIV Group's revenue from continuing operations recorded a significant decrease to approximately HK\$511 million, representing a decrease of approximately 44% as compared to approximately HK\$911 million for the 2018 Year. Direct investment business segment recorded a revenue of approximately HK\$363 million in the 2019 Year, representing a decrease of approximately 40% as compared to approximately HK\$608 million in the 2018 Year. The revenue of financial services and other business segments was approximately HK\$148 million during the 2019 Year, representing a decrease of approximately 51% as compared to approximately HK\$303 million in the 2018 Year. In addition, in order to put more emphasis on developing HRIV's direct investment and financial services segments, the HRIV Group sold the entire foundation and substructure construction services segment in 2019, which contributed approximately HK\$284 million gains on disposal to the HRIV Group.

During the 2019 Year, the HRIV Group recorded loss of approximately HK\$927 million (2018 Year: profit of HK\$72 million). Loss for the 2019 Year was mainly due to the increase in the impairment losses on the loan and debt instruments and finance lease receivables, and the net losses on fair value changes of financial investments during the 2019 Year.

Based on the assessment for the overall conditions of market, customers and collaterals, in the 2019 Year, the HRIV Group made provisions for the investment on loan and debt instruments and finance leases receivables, amounting to approximately HK\$890 million. In addition, the losses arising from the changes in financial assets at fair value through profit or loss was approximately HK\$216 million in the 2019 Year, representing an increase of 29% as compared to approximately HK\$167 million in the 2018 Year. As of the date of the HRIV 2019 Annual Report, the management of HRIV were of the view that the HRIV Group had already made adequate provisions for impaired investments during the 2019 Year, and considered that they would not have further material adverse impact on the HRIV Group in the future. The HRIV Group believed the then impairment provision for investments and the effects of change in fair value of a few of individual investments would cause no material impact on the long-term development of the HRIV Group.

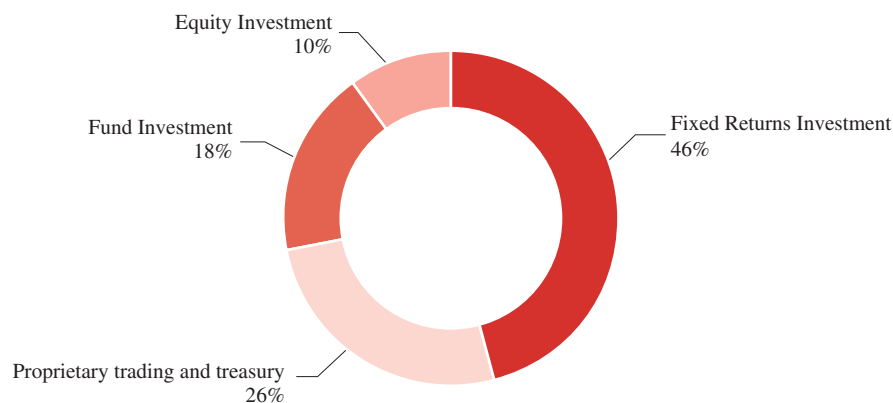
Direct Investment

During the 2019 Year, direct investment business mainly invested in equities, bonds, funds, derivative instruments and other financial products. As at 31 December 2019, the segment assets of direct investment business was approximately HK\$4,070 million (31 December 2018: HK\$6,511 million), representing a decrease of approximately 37% as compared with that of 31 December 2018. During the 2019 Year, segment revenues of approximately HK\$363 million (the 2018 Year: HK\$608 million) and segment loss of approximately HK\$894 million (the 2018 Year: segment profit of approximately HK\$89 million) were recorded.

During the 2019 Year, the direct investment business of the HRIV Group was divided into four major categories, namely fixed returns investments, fund investments, equity investments and proprietary trading and treasury. Fixed returns investments mainly represented investment in private bonds, loans, convertible bonds and fixed income funds, which in the 2019 Year accounted for approximately 46% of the total investment assets. Such investment provided HRIV with stable income and cash flow. The fund investment mainly represented investment in various funds investing in equity, which accounted for approximately 18% of the total investment assets in the 2019 Year. Equity investments accounted for approximately 10% of the total investment assets in the 2019 Year, mainly comprising shares of listed companies and equity investment of unlisted companies with strong potential. The proprietary trading and treasury accounted for approximately 26% of the total investment assets in the 2019 Year, which mainly invested in global bonds and conducted liquidity management and foreign exchange risk management for the HRIV Group through bond market, financing arrangement with banks and other financial

instruments. As of the date of the HRIV 2019 Annual Report, the HRIV Group believed that while the stable income of HRIV was guaranteed by fixed returns investment, fund and equity investments could bring potential and remarkable profit to the HRIV Group.

Direct Investment Assets (by Investment Categories)



Financial Services and Others

Financial services and other related services mainly included provision of finance lease services, business consulting services and other related services. The HRIV Group has set up a professional financial leasing company with relevant licences in the PRC, which in the 2019 Year focused on providing services to the basic industries which conformed to the PRC's industrial policy and economic development trend at the time, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquified natural gas, to obtain constant and stable rental income. In addition, based on the HRIV Group's domestic and overseas business network and the experience of investing in various industries, over the 2019 Year, the HRIV Group also provided consulting services on macro-economy, industry analysis, financial product design and other aspects for customers.

As at 31 December 2019, the segment assets of the business of the financial services and others amounted to approximately HK\$1,135 million (31 December 2018: HK\$1,701 million), representing a decrease of approximately 33% as compared with that of 31 December 2018. During the 2019 Year, the segment revenue of approximately HK\$148 million (the 2018 Year: HK\$303 million) and the segment loss of approximately HK\$169 million (the 2018 Year: segment profit of approximately HK\$144 million) were recorded.

Significant Investments

As at 31 December 2019, the HRIV Group's significant investments included the following financial assets.

Investment	Investment cost <i>HK\$'000</i>	Percentage of shares/units held as at 31.12.2019	Principal business of the investee	Performance during the year						Carrying amounts to the total assets ratio
				Carrying amounts at 31.12.2019	Carrying amounts at 31.12.2018	Movement during the year	Changes in fair value	Dividend income	Gain or loss on disposal	
				<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Interest in Edge Venture Partners L.P. (Limited Partnership)	373,817.00	100.0%	N/A	358,296	623,942	(265,646)	(20,756)	-	-	5.6%
Secured convertible bonds issued by Freeman Fintech Corporation Limited	429,197.00	N/A	Financial services	409,120	427,889	(18,769)	(18,769)	-	-	6.4%
Loan arrangement with Qingdao Jiayaohua Real Estate Co., Ltd.	759,115.00	N/A	Real estate	460,540	765,358	(304,818)	N/A	N/A	-	7.3%

Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies

Save as disclosed on pages 17 to 18 of the HRIV 2019 Annual Report, HRIV did not have any other material acquisitions or disposal of subsidiaries and affiliated companies during the 2019 Year.

PROSPECTS

As of the date of the HRIV 2019 Annual Report, it was expected that in 2020 the overall national economic conditions in the PRC would become steady and the overall economic policy would be positively executed, and this in turn would offer time and room for HRIV to reduce risks and go ahead with development transformation. Following the 2019 Year, the HRIV Group intended to keep on enhancing the quality of project investment and strengthening the core competence and sustainability while increasing control and management of risks.

Following the 2019 Year, the HRIV Group intended to continue to squarely analyse circumstances, sharpen its advantages, explore diversified competitive modes, while strengthening its foundation and maintaining stable business development to intensify reform, optimise the structures of businesses, customers, and staff, as well as enhancing its ability to

serve the real economy on a going basis. To achieve the development approach of revitalising its principal business and the overall operational strategy of developing “huge non-performing asset”, the HRIV Group also intended to focus on exploring the market segment of non-performing asset as well as motivating relevant innovative financial service businesses to further enrich and optimise the product system of HRIV.

Following the 2019 Year, while engaging in business development, the HRIV Group further intended to continue to promote the construction of quantitative analysis system for market risks to strengthen its ability to implement control and management measures for credit risks. Moreover, the HRIV Group intended to continue to strengthen its corporate governance and risk control mechanism to improve the overall system management and achieve the steady growth and development of the HRIV Group.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the HRIV Group as at 31 December 2019 were approximately HK\$4,580 million (31 December 2018: HK\$7,006 million). As at 31 December 2019, the secured borrowings were approximately HK\$191 million (31 December 2018: HK\$307 million). The secured borrowings as at 31 December 2019 of RMB171 million (equivalent to approximately HK\$191 million) were secured by a finance lease receivable.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the HRIV Group’s bank balances and cash and deposits in other financial institutions were approximately HK\$1,017 million (31 December 2018: HK\$879 million). Over the 2019 Year, the HRIV Group managed its capital structure to finance its overall operation and growth by using different sources of funds. During the 2019 Year, the HRIV Group’s sources of fund include loans from direct and indirect shareholders, loans from banks and internal resources. The gearing ratio of the HRIV Group as at 31 December 2019 (defined as total interest-bearing borrowings divided by the HRIV Group’s total equity) was approximately 3.6 (31 December 2018: 3.2).

BORROWINGS

Particulars of borrowings of the HRIV Group as at 31 December 2019 are set out in note 31 to the consolidated financial statements of the HRIV Group for the 2019 Year contained within the HRIV 2019 Annual Report.

TREASURY POLICY

The HRIV Group had adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 2019 Year: The HRIV Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the HRIV Board closely monitored the HRIV Group's liquidity position and implemented in-house treasury measures to ensure that the liquidity structure of the HRIV Group's assets, liabilities and other commitments could meet its funding requirements from time to time.

Over the 2019 Year, the HRIV Group's operations were mainly denominated in United States dollars, Hong Kong dollars and RMB. As the United States dollars were linked to the Hong Kong Dollars, the HRIV Group expected that there was no significant change in the exchange rate of United States Dollars against Hong Kong dollars. During the 2019 Year, the HRIV Group used the financial instruments in the market to hedge its exposure to foreign exchange risk arising from investment through the proprietary trading and treasury function of the HRIV Group in respect of the foreign exchange risk of some investments. Following the 2019 Year, the HRIV Group intended to keep monitoring its exposure to foreign exchange fluctuations closely and might introduce appropriate hedging measures if necessary.

CAPITAL COMMITMENTS

The HRIV Group had no material capital commitments as at 31 December 2019 (31 December 2018: Nil).

CONTINGENT LIABILITY

The HRIV Group had no material contingent liability as at 31 December 2019 (31 December 2018: Nil).

EVENTS AFTER THE 2019 YEAR

On 27 March 2020 (after trading hours), Intrend Ventures Limited as the issuer, executed the supplemental deed dated 27 March 2020 by way of deed poll in favour of Big Thrive Limited, an indirect wholly-owned subsidiary of HRIV, as the subscriber, in relation to, among other things, the proposed amendments to the terms and conditions as set out in such supplemental deed.

For the details, please refer to the announcements of HRIV dated 30 August 2017, 30 August 2019 and 27 March 2020 and the circular of HRIV dated 4 October 2019.

Save as disclosed above, there were no significant events after the end of the 2019 Year.

EMPLOYEES INFORMATION

As at 31 December 2019, the HRIV Group's continuing operations had 33 staff (31 December 2018: 59). The total staff costs incurred by the HRIV Group's continuing operations for the 2019 Year were approximately HK\$49,024,000 (31 December 2018: HK\$81,378,000).

In the 2019 Year, the salary and benefit levels of the employees of the HRIV Group were competitive: As of the date of the HRIV 2019 Annual Report, the HRIV Group was expanding its direct investments and financial services businesses. Competitive salary could attract professional talents to commit to the HRIV Group's financial and investment business. Individual performance of the employees of the HRIV Group was rewarded through the HRIV Group's salary and bonus system. In addition, the HRIV Group provided adequate on-the-job training to employees in order to equip them with practical knowledge and skills to tackle various situations and challenges encountered in a diverse range of working sites.

FINAL DIVIDEND

The HRIV Board did not recommend payment of final dividend to shareholders of HRIV for the 2019 Year (31 December 2018: Nil).

4. FOR THE SIX MONTHS ENDED 30 JUNE 2020**BUSINESS AND FINANCIAL REVIEW****Pursue the Right Path, Rebound from Trough and Embrace Recovery**

During the first half of 2020, Hong Kong and the rest of the world were severely affected by the novel coronavirus. Yet, the HRIV Group continued to pursue its chosen path steadfastly, consolidated its business foundation, undertook risk control and maintained stable development. In the first half of 2020, the HRIV Group recorded a significant decrease in loss compared to the same period of last year, falling from approximately HK\$316 million in the same period of last year to approximately HK\$2 million.

For the six months ended 30 June 2020 (the "**2020 1H Period**"), the HRIV Group recorded a loss of approximately HK\$2 million (for the six months ended 30 June 2019 (the "**2019 1H Period**"): loss of approximately HK\$316 million). The drastic decrease in loss for the 2020 1H Period was mainly due to unrealised gains of approximately HK\$55 million from financial investments, combined with a reduction of impairment loss to approximately HK\$39 million, recorded. Compared to unrealised losses of approximately HK\$202 million from financial investments and impairment loss of approximately HK\$101 million incurred during the 2019 1H Period, HRIV's performance improved significantly in the 2020 1H Period.

Based on the assessment for overall conditions of the market, customers and collaterals, in the 2020 1H Period, the HRIV Group made provisions for the investment on loan and debt instruments and finance leases receivables, amounting to approximately HK\$39 million (the 2019 1H Period: approximately HK\$101 million). In addition, the unrealised earnings arising from changes in financial assets measured at fair value through profit or loss was approximately HK\$55 million for the 2020 1H Period (the 2019 1H Period: loss of approximately HK\$202 million).

Despite an overall revenue decline, HRIV's provision for loss was greatly reduced, with unrealised earnings of investment products measured at fair value recorded during the 2020 1H Period. HRIV's overall development in the 2020 1H Period was positive.

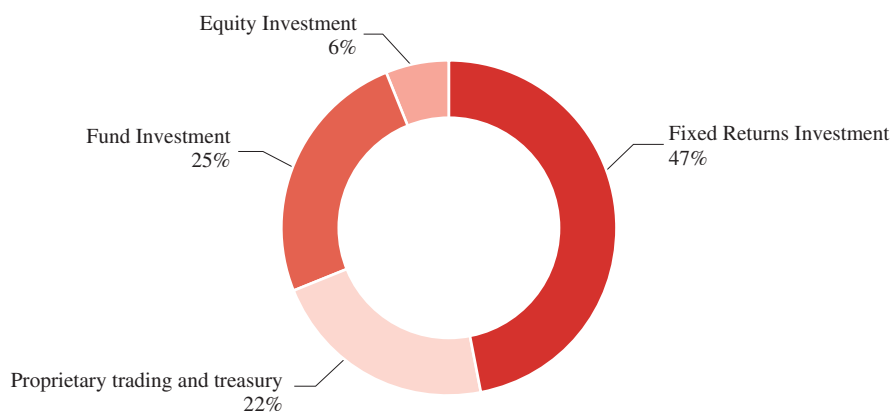
Direct Investment

During the 2020 1H Period, direct investment business mainly invested in equities, bonds, funds, derivative instruments and other financial products. As at 30 June 2020, the segment assets of direct investment business were approximately HK\$3,852 million (31 December 2019: approximately HK\$4,070 million), representing a decrease of approximately 5% as compared with that of 31 December 2019. During the 2020 1H Period, segment revenues of approximately HK\$73 million (the 2019 1H Period: approximately HK\$176 million) and segment loss of approximately HK\$6 million (the 2019 1H Period: segment loss of approximately HK\$261 million) were recorded.

During the 2020 1H Period, the direct investment business of the HRIV Group was divided into four major categories, namely fixed returns investments, fund investments, equity investments and proprietary trading and treasury. Fixed returns investments mainly represented investment in private bonds, loans, convertible bonds and fixed income funds, which accounted for approximately 47% of the total investment assets in the 2020 1H Period. Such investment provided HRIV with stable income and cash flow. The fund investments mainly represented investment in various funds investing in equity, which accounted for approximately 25% of the total investment assets in the 2020 1H Period. Equity investments accounted for approximately 6% of the total investment assets in the 2020 1H Period, mainly comprising shares of listed companies and equity investment of unlisted companies with strong potential. The proprietary trading and treasury accounted for approximately 22% of the total investment assets in the 2020 1H Period, which mainly invested in global bonds and conducted liquidity management and foreign exchange risk management for the HRIV Group through bond market, financing

arrangement with banks and other financial instruments. As of the date of the HRIV 2020 Interim Results Announcement, the HRIV Group believed that while the stable income of HRIV was guaranteed by fixed returns investment, fund and equity investments could bring potential and remarkable profit to the HRIV Group.

Direct Investment Assets (by Investment Categories)



Financial Services and Others

Financial services and other related services mainly included provision of finance lease services, business consulting services and other related services. The HRIV Group has set up a professional financial leasing company with relevant licences in the PRC, which in the 2020 1H Period focused on providing services to the basic industries which conformed to the PRC's industrial policy and economic development trend at the time, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquified natural gas, to obtain constant and stable rental income. In addition, based on the HRIV Group's domestic and overseas business network and the experience of investing in various industries, over the 2020 1H Period, the HRIV Group also provided consulting services on macro-economy, industry analysis, financial product design and other aspects for customers.

As at 30 June 2020, the segment assets of the business of the financial services and others amounted to approximately HK\$1,157 million (31 December 2019: approximately HK\$1,135 million), representing an increase of approximately 2% as compared with that of 31 December 2019. During the 2020 1H Period, the segment revenue of approximately HK\$38 million (the 2019 1H Period: approximately HK\$75 million) and the segment profit of approximately HK\$17 million (the 2019 1H Period: segment loss of approximately HK\$27 million) were recorded.

OUTLOOK

In the first half of 2020, under the impact of sudden epidemic outbreak and overall decline of international economic conditions, HRIV actively responded to the call of China Huarong Asset Management Co., Ltd. to implement work arrangements as planned early in the year, carry out epidemic prevention and control, take charge of operation management, discover its own advantages, explore the differentiated management model, optimize the structure of its business, customers and staff and enhance the economic capability of its service entity. Amid the business development, following the 2020 1H Period, HRIV intended to continue to promote the construction of quantitative analysis system for market risks to strengthen its ability to implement control and management measures for credit risks, strengthen its corporate governance and mechanism for risk prevention and control, in order to perfect the comprehensive system management to realize HRIV's stable growth and development.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the HRIV Group as at 30 June 2020 were approximately HK\$4,226 million (31 December 2019: approximately HK\$4,580 million). As at 30 June 2020, the secured borrowings were approximately HK\$278 million (31 December 2019: approximately HK\$191 million). The secured borrowings as at 30 June 2020 of approximately RMB135 million (equivalent to approximately HK\$148 million) was secured by a finance lease receivable and approximately HK\$131 million was secured by pledged bank deposits.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the HRIV Group's bank balances and cash (including deposits in other financial institutions and pledged bank deposits) were approximately HK\$965 million (31 December 2019: approximately HK\$1,017 million). During the 2020 1H Period, the HRIV Group managed its capital structure to finance its overall operation and growth by using different sources of funds. During the 2020 1H Period, the HRIV Group's sources of fund included proceeds from perpetual capital instruments, loans from direct and indirect shareholders, loans from banks and internal resources. The gearing ratio of the HRIV Group as at 30 June 2020 (defined as total interest-bearing liabilities divided by the HRIV Group's total equity) was approximately 3.3 (31 December 2019: 3.6).

TREASURY POLICY

The HRIV Group had adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 2020 1H Period: The HRIV Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the HRIV Board closely monitored the HRIV Group's liquidity position and implemented in-house treasury measures to ensure that the liquidity structure of the HRIV Group's assets, liabilities and other commitments could meet its funding requirements from time to time.

Over the 2020 1H Period, the HRIV Group's operations were mainly denominated in US Dollars, HK Dollars and RMB. As the HK Dollars were pegged to the US Dollars, the HRIV Group expected that there was no significant change in the exchange rate of US Dollars against HK Dollars. During the 2020 1H Period, the HRIV Group used the financial instruments in the market to hedge its exposure to foreign exchange risk arising from investments through the proprietary trading and treasury function of the HRIV Group in respect of the foreign exchange risk of some investments. Following the 2020 1H Period, the HRIV Group intended to keep monitoring its exposure to foreign exchange fluctuations carefully and might introduce appropriate hedging measures if necessary.

CAPITAL COMMITMENTS

The HRIV Group had no material capital commitments as at 30 June 2020 (31 December 2019: Nil).

CONTINGENT LIABILITIES

The HRIV Group had no material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

EVENTS AFTER THE 2020 1H PERIOD

On 25 August 2020, Mr. Yu Meng resigned as an executive director of HRIV, the chairman of the HRIV Board, the chairman of the nomination committee and a member of the risk management committee of HRIV.

On 25 August 2020, Mr. Yang Rungui was appointed as an executive director of HRIV, the chairman of the HRIV Board, the chairman of the nomination committee and a member of the risk management committee of HRIV.

For details, please refer to the announcement of HRIV dated 25 August 2020.

Pursuant to the credit framework agreement dated 9 June 2017, Zhongju (Shenzhen) Financial Leasing Co., Ltd. (an indirect wholly owned subsidiary of HRIV) (the “**Lessor**”) and Shenzhen Yestock Automobile Service Co., Ltd. (the “**Lessee**”) entered into the finance leasing agreement dated 10 December 2019, where the Lessor agreed to purchase certain automobiles (the “**Leased Assets**”) from the Lessee at a consideration of RMB50 million (equivalent to approximately HK\$55.5 million), following which the Lessor agreed to lease back such Leased Assets to the Lessee for a term of one year from the date of purchase of such Leased Assets in return for a lease payment.

On 5 August 2020 (after trading hours), the Lessor and the Lessee have entered into the supplemental agreement to the finance leasing agreement, pursuant to which the parties agreed to extend the lease period of the finance leasing agreement to 18 December 2021.

For details, please refer to the announcement of HRIV dated 5 August 2020.

On 3 July 2020, the Board requested the HRIV Board to put forward to the shareholders of HRIV the Proposal. Subject to the Scheme regarding the cancellation of all the Scheme Shares becoming effective, the entire issued share capital of HRIV will be owned by the Company or its wholly owned subsidiary upon completion of the Proposal. Under the Proposal, the Company will make a conditional share exchange offer to the shareholders of HRIV for the cancellation of all the Scheme Shares, in exchange for newly issued shares of the Company in the ratio of every one share of HRIV held to 2.82 shares of the Company, based on the holding of Scheme Shares on the record date (to be announced for determining entitlements under the Scheme). The implementation of the Proposal is, and the Scheme will become effective and binding on HRIV and all the shareholders of HRIV, subject to the fulfillment or waiver (as applicable) of the conditions stated in the joint announcement of HRIV and the Company dated 6 July 2020.

For details, please refer to the joint announcement of HRIV and the Company dated 6 July 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the HRIV Group's continuing operations had 28 staff (31 December 2019: 33). The total staff costs incurred by the HRIV Group's continuing operations for the 2020 1H Period were approximately HK\$11 million (the 2019 1H Period: approximately HK\$20 million).

In the 2020 1H Period, the salary and benefit levels of the employees of the HRIV Group were competitive, which could attract professional talents to commit to the HRIV Group's businesses. Individual performance of the employees of the HRIV Group was rewarded through the HRIV Group's bonus system and was the key index for the salary review from time to time. In addition, the HRIV Group provided adequate job training to employees in order to equip them with practical knowledge and skills to tackle various situations and challenges encountered in a diverse range of working sites.

INTERIM DIVIDEND

The HRIV Board did not recommend payment of interim dividend to shareholders of HRIV for the 2020 1H Period (the 2019 1H Period: Nil).

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma consolidated statement of financial position, an illustrative unaudited pro forma consolidated income statement, and an illustrative unaudited pro forma consolidated statement of cash flows of the Enlarged Group (the “**Unaudited Pro Forma Financial Information**”), which have been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Proposal as if it had taken place on 30 June 2020 for the unaudited pro forma consolidated statement of financial position of the Enlarged Group and on 1 January 2019 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes below based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposal actually occurred on the dates indicated herein. Neither does the Unaudited Pro Forma Financial Information purports to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give and does not purport to describe a true and actual picture of the financial position, financial results or cash flows of the Enlarged Group had the Proposal been completed as at 30 June 2020 and 1 January 2019 respectively or at any future date, nor purport to predict the Enlarged Group’s future financial position, results of operations or cash flows. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 30 June 2020 HK\$000 Note 1	HRIV Group as at 30 June 2020 HK\$000 Note 2	Pro forma adjustments		Total HK\$000
			<i>HK\$000 Note 3</i>	<i>HK\$000 Note 4</i>	
ASSETS					
Non-current					
Property, plant and equipment	2,939	25,856	–	–	28,795
Other long term assets	4,210	–	–	–	4,210
Intangible asset	2,350	1,840	–	–	4,190
Right-of-use assets	76,092	79,870	–	(672)	155,290
Financial assets at fair value through profit or loss	1,262,541	938,000	–	–	2,200,541
Financial assets at fair value through other comprehensive income	2,045,189	–	–	–	2,045,189
Other loans and receivables	–	572,338	–	(40,935)	531,403
Amount due from an associate	302,805	–	–	–	302,805
Deferred tax assets	52,254	–	–	–	52,254
Prepayments, deposits and other receivables	–	21,106	–	–	21,106
Total Non-current Assets	3,748,380	1,639,010	–	(41,607)	5,345,783
Current					
Advances to customers in margin financing	616,134	–	–	–	616,134
Accounts receivable	112,934	2,775	–	–	115,709
Prepayments, deposits and other receivables	50,478	24,394	–	–	74,872
Financial assets at fair value through profit or loss	2,611,372	1,535,363	–	–	4,146,735
Financial assets at fair value through other comprehensive income	1,024,477	–	–	–	1,024,477
Other loans and receivables	2,997,009	1,648,888	–	(26,345)	4,619,552
Amount due from an associate	2,008	–	–	–	2,008
Tax recoverable	65,485	–	–	–	65,485
Restricted bank balances	411,822	–	–	–	411,822
Amount due from fellow subsidiaries	–	4,608	–	–	4,608
Amount due from an intermediate holding company	–	1,050	–	–	1,050
Deposit in other financial institutions	–	127,929	–	–	127,929
Cash and cash equivalents	1,571,377	836,799	–	–	2,408,176
Total Current Assets	9,463,096	4,181,806	–	(26,345)	13,618,557

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 30 June 2020 <i>HK\$000</i> <i>Note 1</i>	HRIV Group as at 30 June 2020 <i>HK\$000</i> <i>Note 2</i>	Pro forma adjustments			Total <i>HK\$000</i>
			<i>HK\$000</i> <i>Note 3</i>	<i>HK\$000</i> <i>Note 4</i>	<i>HK\$000</i> <i>Note 7</i>	
LIABILITIES						
Current						
Accounts payable	919,941	–	–	–	–	919,941
Other liabilities, payable & accruals	130,871	36,505	–	–	–	167,376
Interest-bearing borrowings	3,180,012	1,332,664	–	–	–	4,512,676
Repurchase agreements	1,619,609	–	–	–	–	1,619,609
Tax payable	27,929	38,945	–	–	–	66,874
Lease liabilities	30,194	51,058	–	(26,371)	–	54,881
Amount due to fellow subsidiaries	–	4,667	–	–	–	4,667
Amount due to the immediate holding company	–	49,348	–	–	–	49,348
Financial liabilities at fair value through profit or loss	–	3,839	–	–	–	3,839
Total Current Liabilities	5,908,556	1,517,026	–	(26,371)	–	7,399,211
Non-current						
Other liabilities, payable & accruals	1,845	16,334	–	–	–	18,179
Deferred tax liabilities	10,424	–	–	–	–	10,424
Interest-bearing borrowings	4,906,951	2,893,010	–	–	–	7,799,961
Lease liabilities	46,919	109,479	–	(41,677)	–	114,721
Total Non-current Liabilities	4,966,139	3,018,823	–	(41,677)	–	7,943,285
NET ASSETS	2,336,781	1,284,967	–	96	–	3,621,844
CAPITAL AND RESERVES						
Equity attributable to owners						
Share capital	3,588	18,160	(13,039)	–	–	8,709
Perpetual capital securities	2,757,363	1,424,115	–	–	(1,424,115)	2,757,363
Share premium and reserves	(424,170)	(157,308)	13,039	96	–	(568,343)
Equity attributable to non-controlling interest	–	–	–	–	1,424,115	1,424,115
Total equity	2,336,781	1,284,967	–	96	–	3,621,844

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

	The Group for the year ended 31 December 2019 HK\$000 Note 5	HRIV Group for the year ended 31 December 2019 HK\$000 Note 6	Pro forma adjustments HK\$000 Note 7	Total HK\$000
REVENUE				
Commission and fee income	121,020	51,957	–	172,977
Interest income	1,428,337	402,936	–	1,831,273
Investment income	117,832	56,297	–	174,129
Sub-total	1,667,189	511,190	–	2,178,379
Net losses on financial assets at fair value through profit or loss	(9,802)	(216,431)	–	(226,233)
Net losses arising from disposal of financial assets at fair value through other comprehensive income	(18,715)	–	–	(18,715)
Other income and gains or losses, net	(28,295)	(35,085)	–	(63,380)
Brokerage and commission expense	(8,839)	–	–	(8,839)
Administrative and other operating expenses	(152,353)	(226,615)	–	(378,968)
Impairment losses, net of reversal	(1,641,959)	(937,067)	–	(2,579,026)
Finance Costs	(1,286,755)	(305,845)	–	(1,592,600)
Share of result of associates	14,327	–	–	14,327
Sub-total	(3,132,391)	(1,721,043)	–	(4,853,434)
Loss before tax	(1,465,202)	(1,209,853)	–	(2,675,055)
Income tax (expense) credit	(14,658)	5,834	–	(8,824)
Loss for the year from continuing operation	(1,479,860)	(1,204,019)	–	(2,683,879)
Profit for the year from discontinued operations	–	277,037	–	277,037
Loss for the year	<u>(1,479,860)</u>	<u>(926,982)</u>	–	<u>(2,406,842)</u>
(Loss) Profit for the year attributable to holder of perpetual capital securities	(66,025)	(63,218)	63,218	(66,025)
Loss attributable to non-controlling interest	–	–	(63,218)	(63,218)
Loss attributable to Shareholders	<u>(1,545,885)</u>	<u>(990,200)</u>	–	<u>(2,536,085)</u>

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	The Group for the year ended 31 December 2019 <i>HK\$000</i> <i>Note 5</i>	HRIV Group for the year ended 31 December 2019 <i>HK\$000</i> <i>Note 6</i>	Pro forma adjustments <i>HK\$000</i> <i>Note 7</i>	Total <i>HK\$000</i>
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss:				
Fair value gain on financial assets at fair value through other comprehensive income	52,410	–	–	52,410
Net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss	99,635	–	–	99,635
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the year	18,715	–	–	18,715
Exchange differences arising on translation of foreign operations	(1,415)	(3,423)	–	(4,838)
Other comprehensive income (loss) for the year, net of tax	<u>169,345</u>	<u>(3,423)</u>	<u>–</u>	<u>165,922</u>
Total comprehensive loss for the year	<u>(1,310,515)</u>	<u>(930,405)</u>	<u>–</u>	<u>(2,240,920)</u>
Total comprehensive (loss) income for the year attributable to holder of perpetual capital securities	(66,025)	(63,218)	63,218	(66,025)
attributable to non-controlling interest	–	–	(63,218)	(63,218)
attributable to Shareholders	<u>(1,376,540)</u>	<u>(993,623)</u>	<u>–</u>	<u>(2,370,163)</u>

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2019 HK\$000 Note 8	HRIV Group for the year ended 31 December 2019 HK\$000 Note 9	Total HK\$000
Cash flows from operating activities			
Loss before tax	(1,465,202)	(935,796)	(2,400,998)
Adjustments for:			
Finance cost	1,286,755	308,534	1,595,289
Net unrealised fair value (gain) loss on financial assets at fair value through profit or loss	(11,075)	248,351	237,276
Interest income	(1,441,939)	(410,476)	(1,852,415)
Net loss arising from disposal of financial assets at fair value through other comprehensive income	18,715	–	18,715
Dividend income	(117,832)	(56,297)	(174,129)
Net loss on financial liabilities at fair value through profit or loss	92,046	–	92,046
Depreciation	47,152	102,309	149,461
Net provision for long service payments	1,122	–	1,122
Reversal of unused annual leaves	(1,109)	–	(1,109)
Gain on disposal of property, plant and equipment	(172)	(5,355)	(5,527)
Share of result of associates	(14,327)	–	(14,327)
Net provision of impairment	1,641,959	965,840	2,607,799
Gain on disposal of the foundation and substructure construction operation	–	(283,825)	(283,825)
Gain on non-substantial modification of loan and debt instruments at amortised cost	–	(5,832)	(5,832)
Waive of interest by a related party	–	(14,150)	(14,150)
Operating cash flows before changes in working capital	36,093	(86,697)	(50,604)
Decrease in other loans and receivables and debt instruments	1,388,991	1,226,134	2,615,125
Decrease in amount due from an associate	1,893	–	1,893
Decrease in contract assets	9,808	23,096	32,904
Decrease in advance to customers in margin financing and accounts receivable	284,233	–	284,233
Decrease in prepayments, deposits, trade and other receivables	8,742	52,600	61,342
Decrease in financial investments and derivatives	9,047,672	862,360	9,910,032
Decrease in deposits in other financial institutions	–	49,792	49,792
Decrease in restricted bank balances	7,298	–	7,298
Decrease in contract liabilities	(38,511)	(35,000)	(73,511)
Decrease in accounts payables, other liabilities, payables and accruals	(849,974)	(32,226)	(882,200)
Decrease in repurchase agreements	(2,380,806)	–	(2,380,806)
	7,479,346	2,146,756	9,626,102

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2019 HK\$000 Note 8	HRIV Group for the year ended 31 December 2019 HK\$000 Note 9	Total HK\$000
Cash generated from operations	7,515,439	2,060,059	9,575,498
Taxes refund received (paid)	5,315	(10,171)	(4,856)
Dividend received	–	54,139	54,139
Interest received	1,157,919	275,409	1,433,328
Net cash from operating activities	8,678,673	2,379,436	11,058,109
Cash flows from investing activities			
Dividend received	117,832	–	117,832
Proceeds from disposal of financial investments	1,595,878	995,778	2,591,656
Purchase of financial investments	–	(145,256)	(145,256)
Proceeds from disposal of property, plant and equipment	3,276	20,218	23,494
Decrease in other long term assets	85	–	85
Purchase of property, plant and equipment	(234)	(29,320)	(29,554)
Refund of rental deposits	–	869	869
Repayment from fellow subsidiaries	–	1,688	1,688
Advance to an intermediate holding company	–	(258)	(258)
Net cash outflows from disposal of subsidiaries	(148,732)	(14,802)	(163,534)
Net cash from investing activities	1,568,105	828,917	2,397,022
Cashflow from financing activities			
Distribution to interest holders of unlisted consolidated investment funds	(454,452)	–	(454,452)
Interest paid	(1,453,152)	(135,105)	(1,588,257)
Drawdown of interest-bearing borrowings	17,418,511	1,873,087	19,291,598
Repayment of interest-bearing borrowings	(25,095,293)	(4,287,857)	(29,383,150)
Proceeds from financial assets sold under repurchase agreements	–	748,007	748,007
Repayments of financial assets sold under repurchase agreements	–	(1,162,586)	(1,162,586)
Repayment of lease liabilities	(36,312)	(73,726)	(110,038)
Advance from a fellow subsidiary	–	4,498	4,498
Repayment to fellow subsidiaries	–	(5,665)	(5,665)
Repayment to an intermediate holding company	–	(19)	(19)
Distribution to holder of perpetual capital securities	(66,964)	–	(66,964)
Net cash used in financing activities	(9,687,662)	(3,039,366)	(12,727,028)
Net increase in cash and cash equivalents	559,116	168,987	728,103
Cash and cash equivalents at beginning	2,401,797	738,955	3,140,752
Effect of foreign exchange rate changes, net	109,031	19,304	128,335
Cash and cash equivalents at end of year	3,069,944	927,246	3,997,190

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

1. The unaudited consolidated statement of financial position of the Group as at 30 June 2020 has been extracted from the 2020 interim results announcement of the Company published on 26 August 2020.
2. The unaudited consolidated statement of financial position of the HRIV Group as at 30 June 2020 has been extracted from the 2020 interim results announcement of HRIV published on 26 August 2020.
3. The adjustment represents the consolidation entry between the Group and the HRIV Group in relation to issue of shares of approximately HK\$5,121,000, calculated by using the conversion ratio of 2.82 times outstanding number of HRIV's shares of 1,816,000,000 times share price of the Company at par value HK\$0.001 and elimination of share capital of HRIV of HK\$18,160,000 (i.e. the elimination of share capital of HRIV being offset by issuance of the Company's shares per conversion ratio).
4. The adjustment represents the elimination of transactions in relation to a sharing agreement for the use of an office and administrative services between the Group and the HRIV Group.
5. The audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 has been extracted from the 2019 annual report of the Company published on 28 April 2020.
6. The audited consolidated statement of profit or loss and other comprehensive income of the HRIV Group for the year ended 31 December 2019 has been extracted from the 2019 annual report of HRIV published on 29 April 2020.
7. The adjustment represents the reclassification from holder of perpetual securities to non-controlling interest as it is equity in a subsidiary not attributable, directly or indirectly to a parent.
8. The audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 has been extracted from the 2019 annual report of the Company published on 28 April 2020.
9. The audited consolidated statement of cash flows of the HRIV Group for the year ended 31 December 2019 has been extracted from the 2019 annual report of HRIV published on 29 April 2020.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

2. ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of an accountant's report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular, in respect of the unaudited pro forma financial information of the Group.



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To the Directors of Huarong International Financial Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huarong International Financial Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purpose only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2020, unaudited pro forma consolidated income statement, and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019 as set out in Appendix V of the circular dated 25 September 2020 (the “Circular”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix V to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the effect of the proposed privatization of Huarong Investment Stock Corporation Limited (“HRIV”) as if it had taken place on 30 June 2020 for the unaudited pro forma consolidated statement of financial position of the Group and on 1 January 2019 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows of the Group.

As part of this process, information about the Group’s financial position, financial performance and cashflow has been extracted by the Directors from the Group’s unaudited interim financial statements for the period ended 30 June 2020, on which an interim report of the Group has been published and the Group’s audited financial statements for the year ended 31 December 2019, on which an annual report of the Group has been published.

Information about financial position, financial performance and cashflow of HRIV and its subsidiaries (the “HRIV Group”) has been extracted by the Directors from the HRIV Group’s unaudited interim financial statements for the period ended 30 June 2020, on which an interim report of the HRIV Group has been published and the HRIV Group’s audited financial statements for the year ended 31 December 2019, on which an annual report of the HRIV Group has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

25 September 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>1,000,000,000,000</u> Shares	<u>1,000,000,000</u>
<i>Issued and Fully Paid:</i>	
<u>3,588,466,011</u> Shares in issue as at the Latest Practicable Date	<u>3,588,466.011</u>

Assuming there is no change to the issued share capital of the Company from the Latest Practicable Date up to the Effective Date, immediately upon completion of the Proposal, the share capital of the Company will be as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>1,000,000,000,000</u> Shares	<u>1,000,000,000</u>
<i>Issued and Fully Paid:</i>	
3,588,466,011 Shares in issue as at the Latest Practicable Date	3,588,466.011
5,121,120,000 Shares to be allotted and issued to the Scheme Shareholders pursuant to the Scheme	5,121,120.000
<u>8,709,586,011</u> Shares in issue immediately upon completion of the Proposal	<u>8,709,586.011</u>

All of the existing issued Shares rank pari passu in all respects with each other, including all rights as to dividends, voting and capital.

The 5,121,120,000 new Shares to be allotted and issued pursuant to the Scheme will rank pari passu in all respects among themselves and with the existing issued Shares as at the date of allotment and issuance of such new Shares, including, among other things, the right to receive in full all dividends and other distributions after the date of allotment and issuance of such new Shares pursuant to the Scheme.

3. INTERESTS OF DIRECTORS

(a) Interests in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or was proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) Interests in contracts

As at the Latest Practicable Date, no contracts or arrangements were subsisting in which a Director was materially interested and which were significant in relation to the business of the Enlarged Group.

(d) Interests in competing business

As at the Latest Practicable Date, in so far as the Directors were aware of, none of the Directors and their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

(e) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the persons (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
China Huarong (Notes 1 to 3)	Interests in controlled corporation	2,740,338,193 (L)	76.37%
CHIH (Notes 1 and 3)	Interests in controlled corporation	1,965,117,664 (L)	54.76%
Camellia (Notes 1 and 3)	Beneficial owner	1,830,117,664 (L)	51.00%
	Interests in controlled corporation	135,000,000 (L)	3.76%
Shinning Rhythm (Note 2)	Security interest	775,220,529 (L)	21.60%
Huarong Overseas (Note 2)	Interests in controlled corporation	775,220,529 (L)	21.60%

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
Huarong Huaqiao (Note 2)	Interests in controlled corporation	775,220,529 (L)	21.60%
Huarong Zhiyuan (Note 2)	Interests in controlled corporation	775,220,529 (L)	21.60%
Hero Link (Note 4)	Beneficial owner	129,000,000 (L)	3.59%
Tian Yuan Int'l (Note 4)	Beneficial owner	646,220,529 (L)	18.01%
	Interests in controlled corporation	129,000,000 (L)	3.59%
Tian Yuan Group (Note 4)	Interests in controlled corporation	775,220,529 (L)	21.60%
Mr. Jia (Note 4)	Interests in controlled corporation	775,220,529 (L)	21.60%
Ms. Dong Jufeng (Note 4)	Interests of spouse	775,220,529 (L)	21.60%

(L) long position

Notes:

- 1,830,117,664 Shares are beneficially owned by Camellia which is wholly owned by CHIH. CHIH is owned as to 84.84% by China Huarong, 1.80% by Huarong Zhiyuan and 13.36% by Huarong Shiye. Each of Huarong Zhiyuan and Huarong Shiye is wholly owned by China Huarong. China Huarong is beneficially owned as to 57.02% by the PRC Ministry of Finance and is deemed to be owned as to 4.39% by the PRC Ministry of Finance through controlled corporation. Therefore, each of China Huarong and CHIH is deemed or taken to be interested in all the Shares beneficially owned by Camellia by virtue of the SFO.

2. Shinning Rhythm holds direct security interest in 775,220,529 underlying Shares and is a wholly-owned subsidiary of Huarong Overseas, which is in turn a wholly-owned subsidiary of Huarong Huaqiao. Huarong Huaqiao is owned as to 91% by Huarong Zhiyuan. Huarong Zhiyuan is a wholly-owned subsidiary of China Huarong. Accordingly, each of Huarong Overseas, Huarong Huaqiao, Huarong Zhiyuan and China Huarong is deemed to be interested in the security interest in the 775,220,529 underlying Shares held by Shinning Rhythm by virtue of the SFO.
3. Fresh Idea Ventures Limited (“**Fresh Idea**”) holds direct security interest in 135,000,000 underlying Shares and is a wholly-owned subsidiary of Linewear Assets Limited (“**Linewear**”). Linewear is a wholly-owned subsidiary of the Company, which in turn is owned as to 51% by Camellia. Accordingly, each of Camellia, CHIH and China Huarong is deemed to be interested in the security interest in the 135,000,000 underlying Shares held by Fresh Idea by virtue of the SFO.
4. Tian Yuan Group is deemed or taken to be interested in (i) 129,000,000 Shares held by Hero Link which is held as to 82% by Tian Yuan Int’l; and (ii) 646,220,529 Shares held by Tian Yuan Int’l. Tian Yuan Int’l is a wholly-owned subsidiary of Tian Yuan Group, which in turn is wholly-owned by Mr. Jia. Accordingly, each of Tian Yuan Int’l, Tian Yuan Group, Mr. Jia and his spouse Ms. Dong Jufeng is deemed to be interested in the 775,220,529 Shares beneficially held by Hero Link and Tian Yuan Int’l by virtue of the SFO. Such 775,220,529 Shares have been pledged to Shinning Rhythm by Hero Link and Tian Yuan Int’l.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register required to be kept by the Company under section 336 of the SFO.

Except for (a) Mr. Yang Rungui, who is an executive director of both the Company and CHIH, (b) Mr. Wang Junlai who is also an executive director of both the Company and CHIH, and (c) Ms. Wang Qi, who is a non-executive Director and holds senior management position in CHIH, as at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, none of the members of the Enlarged Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered in the ordinary course of the business carried on or intended to be carried on by the Enlarged Group) had been entered into by members of the Enlarged Group within the two years before the Latest Practicable Date that were or might be material:

- (a) (i) the supplemental deed dated 28 September 2018 executed by Freeman FinTech Corporation Limited (“**Freeman FinTech**”) by way of deed poll to amend certain terms and conditions (the “**Amendment of Conditions**”) of the secured convertible bonds in the aggregate principal amount of HK\$437 million issued by Freeman FinTech and subscribed by Cheery Plus Limited (an indirect wholly-owned subsidiary of HRIV) (“**Cheery Plus**”); and (ii) the deed of undertaking dated 28 September 2018 entered into between Freeman FinTech and Cheery Plus, pursuant to which Freeman FinTech undertook to perform certain obligations to facilitate the Amendment of Conditions;
- (b) the sale and purchase agreement dated 3 March 2019 entered into between Huarong International Asset Management Growth Fund L.P. (the “**Fund**”), an indirect wholly-owned subsidiary of the Company, as the seller, and Mr. Zhong Xiaojian (“**Mr. Zhong**”), as the purchaser, in relation to the disposal by the Fund to Mr. Zhong of unsecured redeemable 4.5% convertible notes due 2019 issued by ChinaSoft International Limited (stock code: 354) and subscribed by the Fund in the principal amount of US\$30,000,000, at a consideration of US\$52,000,000;
- (c) the master agreement dated 22 May 2019 and entered into between the Company and China Huarong in relation to the provision by the Group of financial services to China Huarong and its associates (as defined under the Listing Rules) for a term of three years subject to the annual cap of HK\$60 million for each year;
- (d) the agreement dated 29 July 2019 entered into between Linewear Assets Limited (“**Linewear**”), a direct wholly-owned subsidiary of the Company, and China Jinxin Finance Inc. (“**China Jinxin**”) as purchaser in relation to the intended disposal (which did not materialise) by Linewear to China Jinxin of 100 issued shares (being the entire issued share capital) in Option Best Holdings Limited (“**Option Best**”) and all loans and other amounts (whether principal, interests or otherwise) outstanding and owing by Option Best to Linewear at completion, at a consideration calculated based on the following formula: $\text{HK\$}360,000,800 + (\text{HK\$}300,000,000 \times 20\%) \times D \div 360$, where “D” is the number of days during the period from (and including) 30 June 2019 to (but excluding) the date of completion;
- (e) (i) the supplemental deed dated 30 August 2019 and executed by Intrend Ventures Limited (“**Intrend Ventures**”) by way of deed poll in favour of the holder of certain extendable senior secured bonds in the principal amount of up to HK\$450 million (the “**Bonds**”) issued by Intrend Ventures and subscribed by Big Thrive Limited (an

indirect wholly owned subsidiary of HRIV) (“**Big Thrive**”), amending and supplementing certain terms and conditions of the Bonds; and (ii) the deed of confirmation dated 30 August 2019 entered into among Intrend Ventures, Big Thrive, Mr. Xu Songqing (許松慶) (“**Mr. Xu**”) and Haiyi Limited (海逸有限公司) (“**Haiyi**”) in relation to the confirmation of validity of the guarantee and certain share charges provided in favour of Big Thrive in relation to the Bonds;

- (f) (i) the transfer form dated 20 September 2019 executed by Wise United Holdings Limited (an indirect wholly owned subsidiary of HRIV) (“**Wise United**”), as the transferor, and a company incorporated in Hong Kong with limited liability (an independent third party), as the transferee (the “**Transferee**”), in respect of the disposal by Wise United of the senior secured guaranteed notes issued by Zhuguang Holdings Group Company Limited (珠光控股集團有限公司*) in the outstanding principal amount of US\$12 million held by Wise United to the Transferee at the consideration of US\$12 million; and (ii) the deed of novation to security trust deed dated 20 September 2019 entered into by, among others, Wise United and the Transferee, in respect of the assignment of all rights and obligations of Wise United under the security trust deed dated 4 August 2016 (as amended and supplemented on 1 November 2018) to the Transferee;
- (g) the agreement dated 25 September 2019 entered into between Ocean Charm Investments Limited (“**Ocean Charm**”), an indirect wholly-owned subsidiary of the Company, Mr. Xie Bingzhao (“**Mr. Xie**”) as purchaser and Micro Vision Fund Limited, another indirect wholly-owned subsidiary of the Company and as the general partner, in relation to the disposal by Ocean Charm of all of its right, title and interests in Visual Dome Fund L.P. represented by a commitment of HK\$117,000,000 to Mr. Xie at a consideration of HK\$143,744,055;
- (h) the share purchase agreement dated 27 September 2019 entered into between HRIV, as the seller, and Acute Peak Investments Limited (“**Acute Peak**”), as the purchaser, in respect of the disposal by HRIV to Acute Peak of the entire issued share capital of Auto Brave Limited at the consideration of HK\$290 million;
- (i) (i) the master deed dated 18 October 2019 entered into between the Company and China Huarong Overseas Investment Holdings Co., Limited (“**Huarong Overseas**”) in connection with the Huarong Tianhai Equity Transfer and Wide Trend Share Transfer (each as defined below) pursuant to which the aggregate cash consideration payable by Huarong Overseas in respect of such transfers was agreed to be HK\$11.23 million; (ii) the equity transfer agreement dated 18 October 2019 entered into between the Company and Huarong Overseas in connection with the transfer of 100% equity interest in 華融天海(上海)投資管理有限公司 (Huarong Tianhai (Shanghai) Investment Management Company Limited*) by the Company to Huarong Overseas (the “**Huarong Tianhai Equity Transfer**”); and (iii) the sale and purchase deed dated 18

October 2019 and entered into between Linewear and Huarong Overseas in relation to the disposal by Linewear of the entire issued share capital of Wide Trend Global Limited to Huarong Overseas (the “**Wide Trend Share Transfer**”);

- (j) (i) the supplemental deed dated 22 October 2019 entered into between Coastal Star Investments Limited (an indirect wholly-owned subsidiary of HRIV) (“**Coastal Star**”) and Mr. Kang Jingwei (“**Mr. Kang**”) to, among others, amend and supplement certain terms and conditions of the compensation agreement dated 18 November 2016 entered into between Coastal Star and Mr. Kang in connection with the purchase of 9,360,000 ordinary shares of Cogobuy Group (stock code: 400) at a consideration of HK\$117 million by Coastal Star from Total Dynamic Holdings Limited; and (ii) the deed of debt assumption and note constitution dated 22 October 2019 entered into between Coastal Star, Mr. Kang and Envision Global Investments Limited (“**Envision**”) pursuant to which, among others, Envision has agreed to compensate Coastal Star an amount equal to HK\$60,278,400 and in support of such compensation obligation, Envision has created and issued to Coastal Star an exchangeable note in the principal amount of HK\$60,278,400;
- (k) the agreement dated 25 November 2019 entered into between Able River Limited (a wholly-owned subsidiary of HRIV) (“**Able River**”) and Golden Sunflower Limited (“**Golden Sunflower**”) in relation to the subscription by Able River of the notes due 2020 issued by Golden Sunflower in the principal amount of HK\$105.2 million;
- (l) the sale and purchase agreement dated 24 December 2019 entered into between Bloom Right Limited (an indirect wholly-owned subsidiary of HRIV) (“**Bloom Right**”) and Ascend Trade Limited (“**Ascend Trade**”) in relation to the sale by Bloom Right to Ascend Trade of 10,870,000 issued shares of SuperRobotics Limited at a consideration of approximately HK\$57.6 million;
- (m) the bought and sold note and instrument of transfer dated 23 March 2020 executed by Beyond Steady Limited (“**Beyond Steady**”), an indirect wholly owned subsidiary of the Company, and King Wealth Asia Limited (“**King Wealth**”) in respect of the sale and transfer of 98,500,000 issued ordinary shares of China Sandi Holdings Limited (a company listed on the Stock Exchange with stock code: 910) (“**China Sandi**”) by Beyond Steady to King Wealth at a consideration of HK\$30,000,000;
- (n) the bought and sold note and instrument of transfer dated 23 March 2020 executed by Beyond Steady and Optimal Success Incorporated (“**Optimal Success**”) in respect of the sale and transfer of 214,000,000 issued ordinary shares of China Sandi by Beyond Steady to Optimal Success at a consideration of HK\$65,285,966.34;
- (o) (i) the supplemental deed dated 27 March 2020 executed by Intrend Ventures as the issuer of the Bonds by way of deed poll in favour of Big Thrive as the holder of the Bonds, in relation to, among other things, certain amendments to the terms and

conditions of the Bonds; and (ii) the deed of confirmation dated 27 March 2020 entered into among Intrend Ventures, Big Thrive, Mr. Xu and Haiyi in relation to the confirmation of validity of the guarantee and certain share charges provided on 30 August 2017 in favour of Big Thrive in relation to the Bonds;

- (p) (i) the agreement dated 23 April 2020 entered into between 中聚(深圳)融資租賃有限公司 (Zhongju (Shenzhen) Financial Leasing Co., Ltd.*) (“**Zhongju**”), an indirect wholly owned subsidiary of HRIV, and 安徽太平洋電纜集團有限公司 (Anhui Pacific Cable Group Co., Ltd.*) (“**Anhui Pacific**”), pursuant to which Zhongju agreed to assign and Anhui Pacific agreed to acquire and be assigned, the rights, titles and benefits of Zhongju in the outstanding principal payment amount of RMB44 million under the finance lease agreement dated 1 August 2017 entered into between Zhongju and 安徽長風電纜集團有限公司 (Anhui Changfeng Cable Group Co., Ltd.*) (together with interest accrued thereon in the amount of RMB2 million and all security interests related thereto) at a consideration of RMB46 million; and (ii) the supplemental agreement dated 23 April 2020 entered into between Zhongju, Anhui Pacific, Mr. Huang Min and Ms. Zeng Xiangjun to amend and supplement, among other things, the finance lease agreement dated 27 December 2017 entered into between Zhongju and Anhui Pacific (the “**Finance Lease Agreement**”), with respect to the set-off of the RMB44 million payable by Anhui Pacific to Zhongju as consideration for the assignment against RMB44 million of the purchase price payable by Zhongju and Anhui Pacific under the Finance Lease Agreement; and
- (q) the supplemental agreement dated 5 August 2020 entered into between Zhongju as the lessor and Shenzhen Yestock Automobile Service Co., Ltd.* (深圳市贏時通汽車服務有限公司) (“**Shenzhen Yestock**”) as the lessee in relation to the finance leasing agreement dated 10 December 2019 and entered into between Zhongju and Shenzhen Yestock in respect of finance leasing arrangement over certain automobiles, pursuant to which parties agreed to extend the lease period of such finance leasing agreement to 18 December 2021.

7. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or advice which are contained in this circular:

Name	Qualification
Optima	a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants

The above experts have all given and have not withdrawn their respective written consents to the issue of this circular with the inclusion therein of their letters, opinions, reports and/or advices (as the case may be) and/or references to their names, opinions, reports and/or letters (as the case may be) in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the experts named above:

- (a) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and
- (b) had no direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MISCELLANEOUS

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (ii) The principal place of business of the Company in Hong Kong is situated at Unit A, 16/F & Unit A, 17/F, Two Pacific Place, 88 Queensway, Hong Kong.
- (iii) The company secretary of the Company is Ms. Luo Xiao Jing, who is a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants.
- (iv) The principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited, situated at 4th floor North Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.
- (v) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vi) The auditor of the Company is Ernst & Young and their office address in Hong Kong is 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.
- (vii) This circular and the accompanying form of proxy is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit A, 16/F & Unit A, 17/F, Two Pacific Place, 88 Queensway, Hong Kong from 9:30 a.m. to 5:30 p.m. (except Saturdays, Sundays and public holidays), during the period from the date of this circular up to and including the date of the SGM:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the memorandum and articles of association of HRIV;
- (iii) the letter from the Independent Board Committee, the text of which is set out in the “Letter from the Independent Board Committee” on pages 32 to 33 of this circular;
- (iv) the letter from Optima, the text of which is set out in the “Letter from Optima” on pages 34 to 70 of this circular;
- (v) the accountants’ report on the unaudited pro forma consolidated financial information of the Enlarged Group from Ernst & Young, the text of which is set out in Appendix V to this circular;
- (vi) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 and the interim results announcement of the Company for six months ended 30 June 2020;
- (vii) the annual reports of HRIV for the years ended 31 December 2017, 2018 and 2019 and the interim results announcement of HRIV for six months ended 30 June 2020;
- (viii) the material contracts referred to in the paragraph headed “6. Material Contracts” in this Appendix VI to this circular;
- (ix) the written consents referred to in the paragraph headed “7. Qualifications of Experts and Consents” in this Appendix VI to this circular; and
- (x) this circular.



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 993)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Huarong International Financial Holdings Limited (the “**Company**”) will be held at Level 16, Two Pacific Place, 88 Queensway, Hong Kong on Tuesday, 27 October 2020 at 11:30 a.m. (Hong Kong time) for the purpose of considering, and if thought fit, passing (with or without modifications) the following ordinary resolution of the Company:-

ORDINARY RESOLUTION

“**THAT:**

- (a) the proposal (the “**Proposal**”) by the Company for the privatisation of Huarong Investment Stock Corporation Limited (“**HRIV**”) by way of a scheme of arrangement (the “**Scheme**”) under Section 86 of the Companies Law of the Cayman Islands, subject to and conditional upon the conditions set out, and as described, in the circular of the Company dated 25 September 2020 in connection with the Proposal (the “**Circular**”, a copy of which having been produced to the Meeting), and all transactions contemplated under the Proposal and the Scheme, be and are hereby approved and ratified;
- (b) the directors of the Company be and are hereby granted the specific mandate to exercise all the powers of the Company to allot and issue the Shares, credited as fully paid, to the Scheme Shareholders in accordance with the terms and conditions of the Scheme; and

- (c) the directors of the Company, acting collectively or individually, be and are hereby authorized, for and on behalf of the Company, to do all acts and things, to sign, execute and deliver all such documents and to take all such steps considered by such director(s) to be necessary, appropriate, expedient or desirable to give effect to the transactions set out in (a) and (b) above and all other matters incidental thereto and/or in connection with the implementation of the Proposal and the Scheme, including (without limitation), agreeing to and making such variation, amendment or waiver in connection therewith which, in the opinion of the directors of the Company, is in the interests of the Company and its shareholders as a whole.”

By Order of the Board
Huarong International Financial Holdings Limited
Yang Rungui
Chairman

Dated 25 September 2020

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit A, 16/F & Unit A, 17/F
Two Pacific Place
88 Queensway
Hong Kong

Notes:

1. Unless otherwise defined in this notice or the context requires otherwise, terms defined in the Circular shall have the same meanings when used in this notice.
2. A member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) is entitled to appoint one or, if he is the holder of two or more shares of the Company, more proxies (who must be individuals) to attend and vote instead of him. A proxy need not be a member of the Company.
3. In the case of joint holders of shares in the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he/she was solely entitled thereto; if more than one of such joint registered holders are present, personally or by proxy, the vote of the most or, as the case may be, the more senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members of the Company in respect of such joint holding.
4. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from 22 October 2020 to 27 October 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the Meeting, all transfers of shares of the Company, accompanied by the relevant share certificate(s), must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 21 October 2020.

5. In order to be valid, the form of proxy must be completed in writing and executed under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized, and must be deposited with the Hong Kong branch share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notorially certified copy thereof) not later than 48 hours before the time fixed for holding of the Meeting (i.e. not later than 11:30 a.m. on Sunday, 25 October 2020 (Hong Kong time)) or any adjournment thereof.
6. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. A form of proxy for use at the Meeting is enclosed.
8. The resolution as set out above will be determined by way of poll.
9. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above or post-super typhoon extreme conditions in force at or after 8:00 a.m. on 27 October 2020 and/or the Hong Kong Observatory has announced on 27 October 2020 at or before 8:00 a.m. that any of the above mentioned warnings is to be issued within the next two hours, the Meeting shall automatically be postponed to the next Business Day on which no "black" rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted or post-super typhoon extreme conditions are in force between the hours from 8:00 a.m. to 10:00 a.m. and in such case the Meeting shall be held at 11:30 a.m. on that Business Day at Level 16, Two Pacific Place, 88 Queensway, Hong Kong. The Meeting will be held as scheduled even when a tropical cyclone warning signal no. 3 or below is hoisted or an amber or red rainstorm warning signal is in force. Shareholders of the Company should make their own decision as to whether to attend the Meeting under bad weather conditions bearing in mind their own situation and, if they should choose to do so, they are advised to exercise care and caution.

As at the date of this notice, the executive directors of the Company are Mr. Yang Rungui and Mr. Wang Junlai; the non-executive director of the Company is Ms. Wang Qi; and the independent non-executive directors of the Company are Mr. Hung Ka Hai Clement, Mr. Ma Lishan and Mr. Guan Huanfei.